Responding to Opportunity

ARCTIC GLACIER INCOME FUND

2002 Annual Report

The Opportunity is Clear

Arctic Glacier Income Fund has achieved a strong foundation by making the most of quality business opportunities.

It's now ready to swim into a bigger pond.

The Fund continues to grow on a solid foundation of performance, growth and ingenuity. Arctic Glacier responds to opportunity and has sought to achieve increasing presence in selected markets through its ***five part growth strategy…***

Arctic Glacier will further **improve margins** by continuing to rationalize production processes, distribution networks and administrative infrastructure.


Improve
Margins


Increase
Penetration
of Existing Markets

Arctic Glacier will **increase penetration of existing markets** by expanding product lines and securing new customers.

Arctic Glacier will **further develop** the **Arctic Glacier® Premium Ice brand** to increase market share and the overall size of the market.


Leverage
Brand

Implement Franchise Plan

Arctic Glacier will continue to **implement a franchising plan** that allows it to leverage its brand name and proprietary technologies on a capital efficient basis.

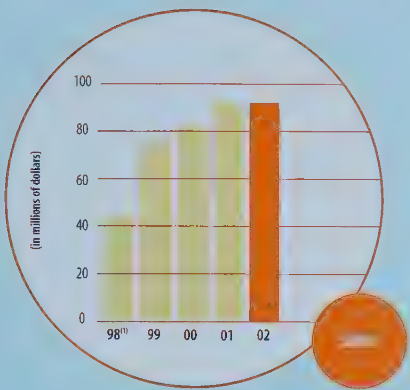
Arctic Glacier will continue to make selective and accretive acquisitions where a significant regional presence can be achieved.

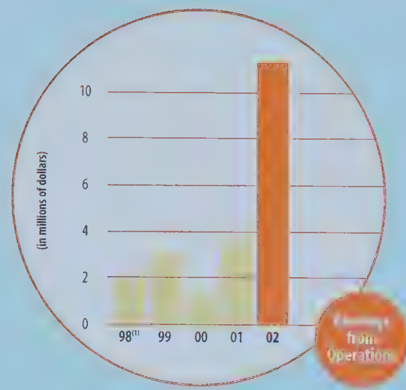
(thousands of dollars, except as noted)	2002	2001	2000
Sales	**91,719**	91,388	82,114
EBITDA	**25,004**	25,053	21,608
EBITDA margin (% of sales)	**27.3%**	27.4%	26.3%
Earnings from operations	**11,260**	3,758	1,236
Net earnings (loss)	**9,227**	(4,818)	(2,885)
Funds from operations	**17,249**	11,904	9,575
Sustaining capital expenditures, net	**3,317**	3,541	3,660
Distributions to unitholders	**12,761**	–	–
Distributions to unitholders per unit	**0.82**	–	–
Total assets	**182,938**	187,097	188,312
Long-term debt	**54,322**	123,284	120,766
Units outstanding	**15,660**	6,043	6,043

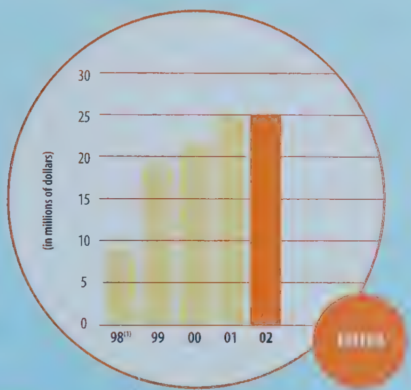
Highlights

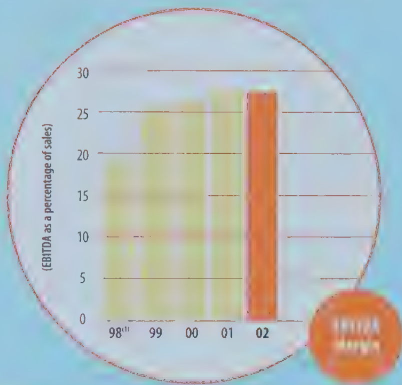
2002

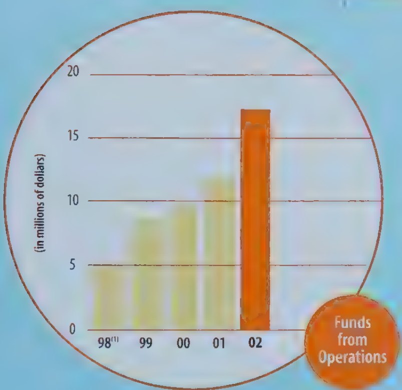
Highlights of 2002

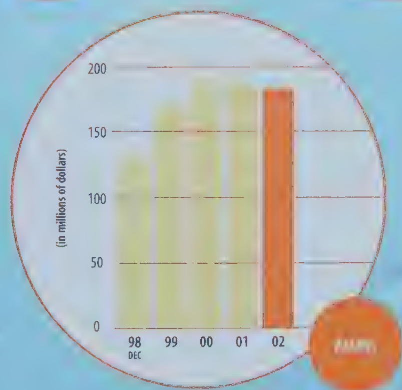


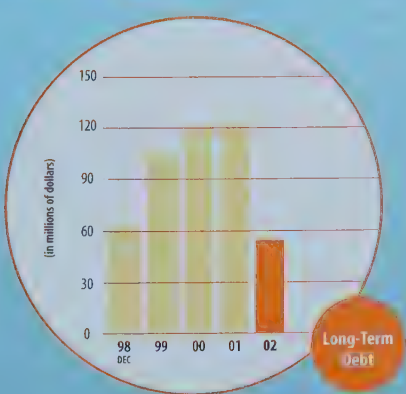


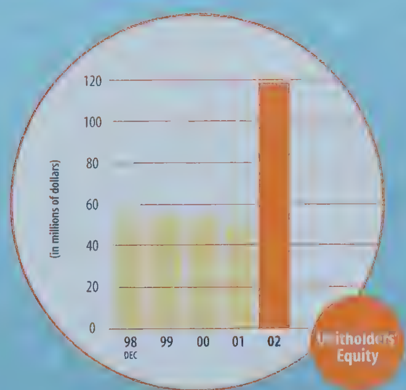












(1) unaudited estimate of 12 months ended December 31, 1998 since the year end of The Arctic Group Inc. was changed in 1998 from April 30 to December 31

To Our Unitholders

For Arctic Glacier Income Fund, 2002 was an exciting time of transition that dramatically illustrated the benefits of our new corporate structure.

It was also a year when we kept our promises to investors.

The Fund was created by the reorganization of The Arctic Group Inc. into an income trust in March 2002. At the same time, the Fund raised $86 million of new equity through an initial public offering (IPO) of Fund units. At that time we told investors that Arctic Glacier's strong and reliable cash flows, diversified customer base and strong market share across a broad geographic area presented a strong opportunity to unlock unitholder value as a Fund. This has occurred in four distinct ways:

- The Fund paid unitholders the cash distributions that had been set out in the IPO prospectus (and then increased them in 2003);
- Tax benefits were better than had been estimated;
- The Fund substantially strengthened its financial position; and,
- The foundation has been built to support further growth.

Cash distributions: Regular, monthly and increasing

During 2002 the Fund declared distributions to unitholders totaling $12.8 million, or 81.5 cents per unit. The initial distribution for the 40-day period from March 22 to April 30, 2002 was 11.50 cents per unit. From May to December inclusive, the monthly distribution was 8.75 cents per unit. Subsequent to year end, the Fund's performance prompted the Trustees to increase distribution rates. Starting in January 2003, the Fund pays 8.92 cents per unit each month. On an annualized basis, that increases distributions to $1.07 from $1.05 per unit.

Also at year end, the tax deferral benefit to unitholders was more favorable than anticipated. The tax allocation of cash distributions was originally estimated to be approximately 40% return of capital and 60% other taxable income. However, year end calculations determined the actual tax deferral allocation to be 47.5% return of capital and 52.5% other taxable income, thereby increasing the portion of distributions that received favorable tax treatment in the hands of our unitholders.

Financial performance: Continuing solid results

Sales of Arctic Glacier's primary product – packaged ice – are closely linked to weather conditions. As we advised you in our quarterly reports, the spring of 2002 – comprising the second quarter – was unseasonably cold in many of our key markets. Sales in the fourth quarter were also off (though to a lesser extent), and overall annual sales were additionally affected by asset dispositions of two non-core businesses during the first half of the year that had generated $3.5 million in sales the prior year. However, these negative factors were more than offset by favorable conditions during the third quarter, which drove overall sales for 2002 to a new high of $91.7 million, a 0.4% increase over the previous year.

Earnings from operations, comprised of earnings before taxes, gains or losses on disposal of assets and non-recurring charges, increased 200% compared to 2001 to a total of $11.3 million. This very substantial rise was principally due to a reduction in interest costs that was achieved by paying down debt with proceeds of the IPO.

Net earnings for the year were $9.2 million, an improvement of $14.0 million from 2001. On a per unit basis, earnings were 67 cents per unit (basic) compared to a loss of 84 cents per unit last year.

Arctic Glacier ended the year with a greatly strengthened balance sheet. At December 31, 2002 the Fund had net long-term debt of $42.4 million, a net debt to equity ratio of 0.4 to 1 and a net debt to EBITDA ratio of 1.7 to 1. Working capital at year end was $15.1 million, including almost $12.0 million in cash. In addition, the Fund had a $5.0 million unutilized line of credit available.

Robert J. Nagy
Chairman and Chief Executive Officer

Going forward: Solid foundation for growth

Looking ahead, there are a number of factors that provide growth opportunities for Arctic Glacier. Foremost among them is a consolidation trend within our customer base; as regional and national customers consolidate, they look to larger suppliers such as Arctic Glacier to service them on a broader basis. Furthermore, these customers demand additional value added services such as advanced technological capabilities. For example, Arctic Glacier currently invoices many of its large customers using Electronic Data Interchange (EDI) technology, a service that most small ice companies cannot provide.

Another stimulus of growth is our investment in product quality, which complements growing consumer awareness of the purity and safety of their water supply. Climatological changes are also playing a role; Environment Canada reports the 10 warmest years in global history have all occurred within the past 15 years, indicating the scientific community's predictions about global warming appear to be correct.

The most recent impetus for enhancement of Arctic Glacier's unit value plays out in news headlines every day. Investor confidence in the stock market is at an all-time low, and as the Fund becomes known for its astute governance, transparent and thorough financial disclosure, diligent management, solid financial results and reliable monthly cash distributions, unitholders will be the beneficiary and unit value should grow. We are a Fund that keeps its promises.

Arctic Glacier will continue to take advantage of these growth factors by building market share. Since it was founded in 1996, Arctic Glacier has sought to achieve increasing presence in selected markets through a five-part growth strategy that aims to:

1. Further improve margins by continuing to rationalize production processes, distribution networks and administrative infrastructure;
2. Increase penetration of existing markets;
3. Further develop the Arctic Glacier® Premium Ice brand to increase market share and the overall size of the market;
4. Aggressively implement a franchising plan that allows Arctic Glacier to leverage its brand name and proprietary technologies on a capital efficient basis; and,
5. Continue making selective, accretive acquisitions where a significant regional presence can be achieved.

Arctic Glacier Income Fund has built a solid operational and financial infrastructure. It has a solid platform for growth, and we look forward to continued expansion of unitholder value in the years to come.

I would like to express my appreciation first and foremost to you, our unitholders, for your confidence in the Fund. I also thank Arctic Glacier's customers for their business, our employees for their dedicated service and our Trustees for their advice and counsel. I look forward to reporting continued progress during 2003.

Arctic Glacier Income Fund

Arctic Glacier Income Fund was created in 2002 when the Board of Directors of The Arctic Group Inc., a TSX-listed company, recognized that an income trust structure would help to unlock the value of the significant cash flows that the company generates by efficiently distributing them to unitholders. The structure would also provide improved access to debt and equity capital.

Accordingly, The Arctic Group Inc. was reorganized into a TSX-listed income trust – Arctic Glacier Income Fund – on March 22, 2002. The Fund issued 6.6 million units to existing shareholders of The Arctic Group Inc. in exchange for all the common shares of the company. Each shareholder indirectly received one unit of the Fund at a value of $9.50 in exchange for six common shares of The Arctic Group Inc. At the same time, the Fund completed an $86 million offering of Fund units, the proceeds of which were largely used to reduce long-term debt. The Fund also created a wholly-owned operating subsidiary, Arctic Glacier Inc., which carries on the business that was previously conducted by The Arctic Group Inc.

The reorganization is the enabling feature of Arctic Glacier's strategy of unlocking the cash flows generated by the company, strengthening its financial position and providing an enhanced platform for growth. From the immediate standpoint of the investor, it allows the tax-advantaged distribution of cash to unitholders.

How the Fund Works

Arctic Glacier Income Fund is an open-ended limited purpose mutual fund trust whose principal activity is to invest in the packaged ice manufacturing and distribution business in Canada and the United States. The Fund does not conduct active business but rather earns and distributes income from its investments. The Fund holds 100% of the common shares and subordinated notes issued by Arctic Glacier Inc., and pays monthly distributions to unitholders from the interest and other income earned on the notes and from dividends or return of capital on the common share investment.

The Fund structure provides for the tax-advantaged distribution of cash to unitholders. Unlike a traditional corporation, the Fund does not pay tax on income that it earns and distributes to its unitholders. All income in the Fund, less Fund expenses, is distributed to unitholders during the year by monthly payments, thereby reducing taxable income of the Fund to zero.

Distribution Policy

The Fund makes monthly cash distributions to unitholders of record on the last business day of each month, payable on or about the 15th of the following month. The Trustees of the Fund have eliminated the impact of seasonal fluctuation on unitholders by equalizing the monthly distributions.

The Fund distributed 81.50 cents per unit in 2002, with an initial distribution of 11.50 cents per unit and 8 subsequent monthly distributions of 8.75 cents per unit. This is equivalent to $1.05 on an annualized basis. Approximately 52.5% of the 2002 distribution is taxable as income in the hands of unitholders, while 47.5% represents a return of capital that reduces the adjusted cost base of unitholders' Fund units.

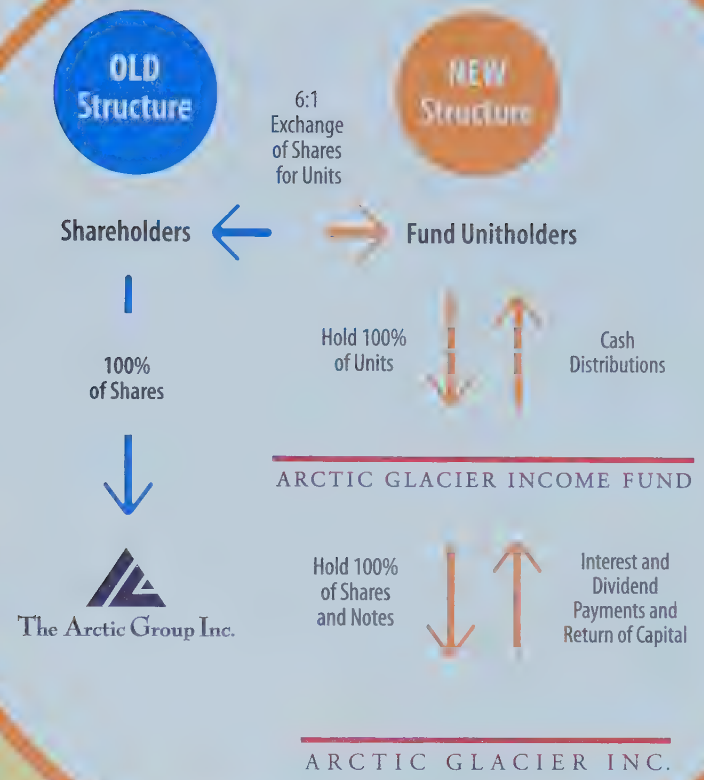
The Trustees of the Fund increased the monthly distributions for 2003 to 8.92 cents per unit, equivalent to $1.07 on an annualized basis.

2002 Distributions

Distribution	Record Date	Payment Date		Amount
Initial	April 30, 2002	May 15, 2002	$	0.1150
May	May 31, 2002	June 14, 2002		0.0875
June	June 28, 2002	July 15, 2002		0.0875
July	July 31, 2002	August 15, 2002		0.0875
August	August 30, 2002	September 13, 2002		0.0875
September	September 30, 2002	October 15, 2002		0.0875
October	October 31, 2002	November 15, 2002		0.0875
November	November 29, 2002	December 13, 2002		0.0875
December	December 31, 2002	January 15, 2003		0.0875
			$	0.8150
Tax Allocation				
Other income			$	0.4280
Return of capital				0.3870
			$	0.8150

Key Attributes of an Income Fund

- High EBITDA margins
- Minimal ongoing requirements for sustaining capital expenditures
- Strong and stable cash flow base
- Growth potential that will lead to increasing returns in the future



Benefits of Income Fund Structure

The Fund enjoys a number of benefits over its predecessor company:

- Improved unit values, as the equity markets generally value income fund units based on distribution yields which will benefit from Arctic Glacier's strong and stable cash flows;
- Higher liquidity, with almost 16 million Fund units outstanding compared to 6 million shares (adjusted to reflect exchange of six common shares for one Fund unit) of the Fund's predecessor company;
- A more balanced investor mix, featuring a higher proportion of institutional unitholders and representation across most of Canada;
- A stronger balance sheet, with net long-term debt of approximately 1.7 times EBITDA at year end 2002, compared to 4.8 times EBITDA under the former capital structure at year end 2001;
- Lower interest costs, resulting from the reduced amount that must be financed plus more favorable rates accorded to enterprises with low leverage; and,
- Improved access to both debt and equity capital to fund future growth.

The solid foundation that has been built over the past five years provides our investors with the security of stable monthly distributions. The strengthened balance sheet and flexible capital structure of the Fund provides a solid platform for making and integrating future acquisitions, which we expect to lead to higher distributions and increase the value of unitholders' investment.

Arctic Glacier is the largest manufacturer and distributor of packaged ice products in Canada, and among the largest in the United States. Since our start in 1996, we have grown through a strategy of synergistic acquisitions that have created a geographically contiguous market area. Our premium quality packaged ice products, marketed under the brand name of Arctic Glacier® Premium Ice, are sold to consumers in markets across Canada, through the central U.S., and now in the northeastern U.S. Arctic Glacier operates 16 production facilities and 35 distribution centers, servicing 35,000 retail, commercial and industrial accounts.

The year ended December 31, 2002 was a period of transition, during which Arctic Glacier completed its corporate reorganization to an income fund, unlocking the value of the significant cash flows generated by the Company, strengthening its financial position and providing an enhanced platform for growth.

Acquisitions

Arctic Glacier did not make any acquisitions during 2002, instead continuing to improve the efficiency of operations that had previously been acquired. While no acquisitions were made during the year, we did continue to assess acquisition opportunities. There are two cornerstones of our acquisition strategy – platform acquisitions of market leaders and strategic acquisitions of smaller companies that are contiguous with current or planned future market areas. During the first quarter of 2003, we concluded the acquisition of the ice products division of Ice Castles, Inc. of Grand Island, Nebraska. Ice Castles, with annual sales of Cdn. $1 million, which services central and western Nebraska from production and distribution centers located in Grand Island, North Platte and Gering. These areas are contiguous with Arctic Glacier's current Nebraska market, and the acquired business will be rationalized and integrated into our existing operations.

As retail grocery and convenience store chains continue to consolidate, they look to larger suppliers like Arctic Glacier and demand additional value added services such as advanced technological capabilities. This benefits Arctic Glacier and provides an opportunity to continue to grow by acquisition, both in areas contiguous to our existing markets and also by establishing operations in new markets where we currently have no presence. We will continue to evaluate potential acquisitions during the current year and beyond.

Dispositions

When we rationalize acquired operations and integrate them into existing operations, we often identify non-core business and redundant assets. During the year we disposed of two non-core operations that were not directly related to our primary business of manufacturing, distributing and marketing packaged ice. These non-core assets consisted of a carbon dioxide and filter business that serviced the northern Alberta market and an ice equipment and beverage dispensing equipment operation that serviced hotels and restaurants in western Texas. These assets were acquired through previous acquisitions, and Arctic Glacier profitably operated them until 2002.

Early in 2002 we decided to dispose of these assets, based on the need for increased capital reinvestment to maintain them, as well as changing market conditions. These assets were sold for proceeds of $3.1 million and resulted in a net gain of $0.9 million.

Arctic Glacier will continue to improve the efficiency of production processes, distribution networks and administrative infrastructure, both for existing and new operations. This will inevitably result in future dispositions of redundant assets, in the form of equipment or facilities that no longer benefit the Fund.

Franchising

Arctic Glacier's North American franchising program licenses qualified independent ice manufacturers that meet our quality standards to package their products under the brand Arctic Glacier® Premium Ice and distribute them in an exclusive territory. The franchise program allows Arctic Glacier to expand the market area in which our branded products are sold and earn a royalty on sales of the franchisee.

Arctic Glacier can enter into licensing agreements with companies that operate in Canada. During 2002, we entered into a licensing agreement with an independent ice manufacturer in Sudbury, Ontario, increasing the market area for Arctic Glacier® Premium Ice in Ontario.

In the United States, this program is considered to be a franchising program. Franchising in the United States became possible in 2002 through Arctic Glacier's Uniform Franchise Offering Circular, filed with regulatory authorities in the states in which the Fund has chosen to offer franchises. During 2002, Ice Perfection Systems Inc., Arctic Glacier's wholly-owned franchising subsidiary, signed three franchise agreements (two were formerly licensees under a previous program) in the United States, expanding the market presence of Arctic Glacier® Premium Ice in Iowa, Missouri and South Dakota.

Early in 2003, Ice Perfection Systems Inc. signed two new franchise agreements with companies based in the northeastern United States. These agreements establish the presence of Arctic Glacier® Premium Ice in Maine, Massachusetts, New Hampshire and Vermont. As with other Arctic Glacier franchises, these agreements are truly synergistic in that both companies benefit. For Arctic Glacier, it provides a revenue stream in the form of a per-bag royalty, with minimal capital investment. Equally important, it dramatically broadens Arctic Glacier's regional penetration and brand recognition by entering the New England market. This provides Arctic Glacier with an entrée into the northeastern U.S. – the most densely populated region of the country. These agreements also provide Arctic Glacier with right of first refusal on the purchase of the business, should the owner wish to sell. For the franchisee, the agreement immediately expands its value and market opportunity in producing and distributing a branded premium product that is rapidly gaining recognition across North America.

There is significant interest from independent ice companies in the industry for our franchise program. We intend to energetically pursue growth of this program as we move forward.

Outlook

The Fund has a solid foundation from which to operate its business and continue growth. Our reorganization into an income fund in March 2002 and its concurrent initial public offering of Fund units has provided Arctic Glacier with a solid capital base. It has also positioned the Fund for growth by enhancing access to both debt and equity capital.

Our strategy of continuing to grow the Fund and increase distributable cash is based on continued improvement of operations, growth through synergistic acquisitions and franchising. Over the past several years we have invested in improving production facilities and distribution networks, improving product quality and the development of the Arctic Glacier® Premium Ice brand. Our investment in these areas will provide the stimulus for continued growth in the years ahead.

Our strong financial footing, broad geographic diversity, large diverse customer base, solid base of operations, dedicated employees and significant opportunity for growth position Arctic Glacier Income Fund well for the future.

Overview

Arctic Glacier Income Fund (the "Fund"), through its wholly-owned operating company, Arctic Glacier Inc. ("Arctic Glacier" or the "Company"), is a leading manufacturer and distributor of premium quality packaged ice products. Arctic Glacier is the largest producer of packaged ice in Canada and is among the largest producers of packaged ice in the United States, serving more than 35,000 retail, commercial and industrial customer locations throughout six provinces in Canada and eight states in the central United States from 16 production and 35 distribution facilities.

Arctic Glacier's primary product is packaged ice, marketed under the brand name Arctic Glacier® Premium Ice. Packaged ice for human consumption is sold in various package sizes ranging from 2 kilograms to 20 kilograms in Canadian markets and 5 to 35 pounds in United States markets. Packaged ice products are sold to retail customers, such as supermarket grocery stores and convenience stores, and to a variety of commercial users including bakeries and meat processors. Arctic Glacier also sells ice in bulk containers primarily to poultry processors, the commercial fishing industry, chemical plants and concrete plants.

Arctic Glacier also markets other ancillary products such as bottled water, dry ice, packaged wood, rock salt and ice-making and dispensing equipment in certain regions. Sales of these ancillary products generally represent approximately 5% of total annual sales.

Arctic Glacier Income Fund

In 2001, the directors of The Arctic Group Inc. began to consider alternative strategies that would allow the Company to strengthen its financial position and provide an enhanced platform for growth. It became clear that an income fund structure would provide these benefits, and at the same time unlock the value of the significant cash flows that the business generates, improving investor returns by efficiently distributing these cash flows directly to unitholders.

On March 22, 2002, The Arctic Group Inc. was reorganized into an income fund called the Arctic Glacier Income Fund. The Fund issued 6.6 million units to the shareholders of The Arctic Group Inc. in exchange for all of the common shares of The Arctic Group Inc., with each shareholder indirectly receiving one unit of the Fund at a value of $9.50 in exchange for each six common shares held. The operating company, now wholly-owned by the Fund, carries on the packaged ice and related products business and operates under the name Arctic Glacier Inc. At the same time, the Fund completed an initial public offering ("IPO") of 9.1 million units at $9.50 per unit, raising $79.1 million after deducting the expenses related to the offering. These funds were primarily used to reduce long-term debt of Arctic Glacier. The Fund also entered into a new credit facility with a new lender. The new credit facility is well suited to Arctic Glacier's needs as it is a multi-currency, revolving facility bearing interest at floating rates, with favorable pricing and no principal repayments due until maturity.

The Fund holds 100% of the common shares and subordinated notes (the "notes") issued by the Company, and pays monthly distributions to unitholders from the interest and other income earned on the notes and from dividends or return of capital on the common share investment.

The Fund's units trade on the Toronto Stock Exchange under the symbol AG.UN. Since the underlying business operations are the same both before and after the reorganization, the Fund is considered to be a continuation of The Arctic Group Inc. for accounting purposes following the continuity of interest method of accounting. Comparative figures for years ended December 31, 2001 are those of The Arctic Group Inc.

Distributable Cash

It is the Company's policy to distribute to the Fund on an annual basis all available cash from operations after deductions for sustaining capital expenditures, debt service and interest obligations, and any reserves for administrative and other expenses and such reasonable working capital reserves considered appropriate by its Board of Directors.

The packaged ice industry is very seasonal. The Trustees of the Fund have eliminated the impact of seasonal fluctuations on unitholders by equalizing the monthly distributions. Because of this seasonality, it is not possible to simply extrapolate the calculation of distributable cash for the 285 day period from March 22, 2002 to December 31, 2002 to determine an estimate of distributable cash on an annual basis. The calculation of distributable cash for the fiscal period is not indicative of the anticipated level of distributable cash on a going-forward basis either, because the results for the 80 day period prior to March 22, 2002 reflect a higher level of long-term debt and interest expense than will be incurred under the income fund structure and they include the costs related to completing the reorganization.

A pro-forma distributable cash calculation is presented below to estimate the distributable cash had the income fund structure been in place since January 1, 2002. Making the pro-forma adjustments noted above, the Fund generated distributable cash of $17.6 million or $1.12 per unit on an annualized pro-forma basis for 2002.

The Fund declared cash distributions totaling $12.8 million or $0.82 per unit in 2002, equivalent to an annualized rate of $1.05 per Fund unit.

DISTRIBUTABLE CASH		(000's, except per unit amounts)
Net earnings	$	9,227
Net earnings adjustments:		
Amortization		9,791
Gain on settlement of long-term debt		(754)
Gain on disposal of capital and operating assets and goodwill		(779)
Future income taxes		1,044
		18,529
Less sustaining capital expenditures, net of dispositions		(3,317)
Distributable cash before pro-forma adjustments		15,212
Pro-forma adjustments:		
Reduction of interest expense to reflect income fund structure before March 22, 2002 (1)		1,572
Remove Plan of Arrangement costs (2)		781
Pro-forma distributable cash	**$**	**17,565**
Pro-forma distributable cash per unit (3)	**$**	**1.12**
Distributions declared	**$**	**12,761**
Distributions declared per unit	**$**	**0.82**
Distributions declared per unit (annualized)	**$**	**1.05**

(1) Reduction of interest expense during the period January 1, 2002 to March 22, 2002 to give effect to the completion of the IPO, acquisition of The Arctic Group Inc. and repayment and refinancing of certain long-term debt instruments as if they had occurred on or before January 1, 2002.

(2) Reduction of non-recurring costs related to the Plan of Arrangement of March 22, 2002.

(3) Based on 15,655,656 units, being the pro-forma weighted average number of units outstanding during the year ended December 31, 2002.

2002 DISTRIBUTIONS

			Distributions			
Month	Record Date	Payment Date	Other Income	Dividend	Return of Capital	Total
Initial	April 30, 2002	May 15, 2002	$ 0.0601	$ -	$ 0.0549	$ 0.1150
May	May 31, 2002	June 14, 2002	0.0466	-	0.0409	0.0875
June	June 28, 2002	July 15, 2002	0.0450	-	0.0425	0.0875
July	July 31, 2002	August 15, 2002	0.0466	-	0.0409	0.0875
August	August 30, 2002	September 13, 2002	0.0466	-	0.0409	0.0875
September	September 30, 2002	October 15, 2002	0.0450	-	0.0425	0.0875
October	October 31, 2002	November 15, 2002	0.0466	-	0.0409	0.0875
November	November 29, 2002	December 13, 2002	0.0450	-	0.0425	0.0875
December	December 31, 2002	January 15, 2003	0.0465	-	0.0410	0.0875
2002 Total			**$ 0.4280**	$ -	**$ 0.3870**	**$ 0.8150**
Percent of total			52.5%	-	47.5%	100.0%

Distributions

The Fund makes monthly distributions of its available cash, to the maximum extent possible, to unitholders of record on the last business day of each month, payable on or about the 15th of the following month. The amount of cash distributed per unit is equal to a pro rata share of interest or principal repayments received on the notes and distributions received on or in respect of the common shares of the Company held by the Fund, after deducting expenses of the Fund and any cash redemptions of the Fund during the month for which the distribution is calculated.

The Fund declared distributions totaling $12.8 million or $0.82 per unit during the period starting March 22, 2002, resulting in an annualized distribution rate of $1.05 per unit. The Fund declared an initial distribution of 11.50 cents per unit for the 40 day period from March 22, 2002 to April 30, 2002 and regular monthly distributions of 8.75 cents per unit thereafter. Of the distributions declared in 2002, approximately $0.43 or 52.5 percent is taxable as income in the hands of unitholders, while $0.39 or 47.5 percent represents a return of capital that reduces the adjusted cost base of unitholders' Fund units.

In recognition of the strong operating results in 2002 and expected results in 2003, the Trustees of the Fund increased the monthly distributions for 2003 to 8.92 cents per Fund unit, equivalent to $1.07 per unit on an annualized basis.

Business Environment and Strategy

Business Environment

Arctic Glacier is the largest producer of packaged ice products in Canada, and is among the largest producers in the United States, where we operate primarily in eight central states. Key characteristics of the North American packaged ice industry include:

- Highly fragmented, consisting of a handful of large multi-regional manufacturers and hundreds of small, independent, family-owned businesses operating in local markets;
- Significant barriers to entry, with a requirement for substantial start-up capital to build the infrastructure to be a significant competitor, and limited ability to secure the larger national and regional accounts from established competitors;
- Limited consumer price sensitivity, resulting from a relatively low product cost and a lack of substitute products; and,
- Highly seasonal, characterized by peak demand and cash flow during the warmer months of May through September each year and more limited demand and cash flow during the remainder of the year.

In addition to these characteristics, there are two more recent trends that affect the packaged ice industry. The first trend involves the industry's customer base, which is continuing to consolidate and seek fewer but larger suppliers with the capabilities to meet their increasing service and technology demands. National and multi-regional grocery and convenience store chains are replacing the traditional single outlet supermarkets and convenience stores that used to dominate the retail customer base for packaged ice. While the North American packaged ice industry remains highly fragmented, it is facing increasing pressure to consolidate in order to service customers on a regional or national basis. Arctic Glacier is well positioned to capitalize on this trend. High-volume production facilities and a large fleet of refrigerated vehicles enable us to offer industry leading service levels to regional chains and entire regions of national chains. In addition, our significant investment in advanced technology such as our computerized hand-held billing and routing system, advanced data communication channels and integrated information systems enable us to meet the demands of larger technologically-advanced customers for automated electronic billing and payment capability.

The second trend involves the increased consumer focus on health and the safety of the products they consume and use. As evidenced by the growth of the bottled water industry over the last decade, water quality and safety have become increasingly important to today's consumer. Arctic Glacier has witnessed an increased focus by retailers and food processors on quality standards as they seek to reduce the risk of manufacturing and selling substandard or unsafe products to consumers. Arctic Glacier has made a significant investment in integrated water filtration systems and has rigorous quality testing standards that exceed ice industry benchmarks.

Management's Discussion & Analysis of Operating Results and Financial Position for the year ended December 31, 2002

Business Strategy and Results

The Fund's key objectives are to generate stable cash distributions to unitholders and to grow distributable cash and distributions. In order to accomplish these objectives, Arctic Glacier has developed a long-term strategy to take maximum advantage of the current business environment and to capitalize on the industry trends by capitalizing on the Fund's financial strength, the access to capital that the income fund structure offers, the critical mass that Arctic Glacier has attained and the skills and efforts of our dedicated staff. The strategy plays a critical role in determining what markets we will operate in and in allocating time and resources between major growth initiatives. The long-term strategy consists of three core elements:

Growth Through Acquisitions:

The first core element of the long-term strategy is growth through geographically contiguous acquisitions of packaged ice manufacturers. Acquisitions within the highly fragmented ice industry constitute the most rapid and effective vehicle for significant growth. Our acquisition strategy in any given market has two key phases – firstly to acquire the dominant manufacturer in a market area to use as a platform, and secondly to purchase smaller competitors in that market and integrate them into the platform. This generally involves rationalizing production facilities and integrating distribution and administration functions with our existing operations.

Arctic Glacier takes a disciplined approach to evaluating new platform acquisition opportunities. Each potential target is evaluated based on certain specific criteria that should be present:

- Geographically contiguous to current operations;
- Achievement of a certain level of profitability, with significant market share and proven management who are prepared to stay on following the acquisition;
- Quality of equipment and infrastructure, including additional investment required to meet our standards;
- Above average potential to enhance return on investment through smaller follow-on acquisitions or rationalization; and,
- Accretive to the Fund's distributable cash on a per unit basis.

The Fund intends to finance acquisitions through a prudent mix of debt financing and future offerings of Fund units.

The focus in 2002 was on building the foundation to support making and integrating future acquisitions. The key element of this was the reorganization of Arctic Glacier into an income fund and the concurrent initial public offering of $86 million of Fund units in March, which enabled a reduction in long-term debt levels by almost 60%. This has provided the Fund with a strengthened financial position along with improved access to both debt and equity capital. With this in place, our focus during the latter part of the year was on closely examining opportunities for acquisitions and evaluating them against our criteria. Although no acquisitions were closed in 2002, early in 2003 Arctic Glacier acquired the ice products division of Ice Castles, Inc., a producer and distributor of packaged ice products servicing central and western Nebraska. With annual sales of approximately CDN $1 million and production and distribution facilities in Grand Island, North Platte and Gering, Nebraska, this acquisition provides a market area that is geographically contiguous with existing market areas in Nebraska and South Dakota and is expected to be accretive to distributable cash in 2003 and beyond. We will continue to evaluate potential acquisitions against our criteria.

Margin Improvement:

The second core element of the long-term strategy is margin improvement. There are two main components to this strategy - rationalizing operations and improving product quality.

Subsequent to establishing a regional presence through acquisitions, we have rationalized production, distribution and administrative infrastructure with the focus on improving efficiency and increasing margins. Since 1997 we have closed 19 smaller, less efficient production facilities, built one new one, and renovated or expanded numerous others. At the same time we have restructured distribution infrastructure to improve service levels and maximize efficiency, closed five redundant distribution facilities and established centralized distribution centers in each of our operating regions. Our geographically contiguous growth has increased sales density enabling a more efficient system with fewer vehicles. We have also centralized accounting and administrative functions, and introduced technology in the form of a computerized hand-held billing and routing system that eliminated the need to manually prepare and process approximately one million customer invoices per year.

The second aspect of margin improvement involves investing in improved product quality. Historically, packaged ice has been viewed by industry participants, retailers and consumers as a commodity product. Ice has been viewed primarily as a refrigerant and not a consumable food product. We believe that a significant opportunity exists to generate brand loyalty to packaged ice on the basis of branded quality, especially in this era of increasing consumer concern over the quality and safety of their drinking water supply. Our strategy involves developing our brand, Arctic Glacier® Premium Ice, as a recognized premium brand with consistent product quality attributes – distinct from commodity grade products. Our recent investments in micro-filtration and ultraviolet sterilization equipment, improved product drying processes and sophisticated packaging equipment establishes Arctic Glacier as an industry leader in this area. We can validly make the claim that the purity of our ice product meets or exceeds that of bottled water. We anticipate that over the next few years this initiative will not only create pricing opportunities, but will also provide the prospect of increasing both market share and market size.

During 2002 we completed a number of initiatives designed to improve margins and distributable cash. In February and May, we divested assets related to non-core business operations in western Canada and Texas respectively for total proceeds of $3.1 million. These operations – a carbon dioxide business that serviced the northern Alberta market, and an equipment and leasing business that serviced hotels and restaurants in western Texas – faced the potential of declining margins as a result of the external competitive environment and were also expected to require increasing levels of capital reinvestment in future years. We also divested of various redundant assets in eastern Canada and the U.S. during the year for additional proceeds totaling $0.4 million. Subsequent to the busy summer season, we redeployed production equipment from our production facility in Bismarck, North Dakota, converting it into a distribution center. We also completed the final phase of the development and implementation of our integrated information system in 2002, which involved installing a centralized information database in our corporate offices in Winnipeg that is automatically updated on a daily basis from each of our facilities using state of the art internet technology. This innovation has enabled the consolidation of all accounting functions into one location resulting in reduced costs and improved availability and accessibility of information. It has also facilitated electronic commerce with our customers and suppliers, including automated electronic billing and payment capability. Finally, we continued to make improvements to our production and packaging efficiency, and are currently test marketing a re-closeable packaging system which has been very well accepted by retailers and consumers, with a goal of expanding it into more market areas in 2004.

Franchising/Brand Development:

The third core element of the long-term strategy is establishing and expanding our franchising program. This program is a critical cornerstone to further developing brand awareness and market penetration of Arctic Glacier® Premium Ice. Under this program, we license independent ice producers that meet our quality standards to package their products under the brand name Arctic Glacier® Premium Ice, and market and distribute them in an exclusive territory. This program permits expansion with limited capital requirements, and it enables us to broaden the geographic presence of our branded product into markets we would not otherwise be in. Franchising also provides a financial return through a per-bag royalty, and a right of first refusal on the purchase of the business should the existing owners wish to sell.

In late 2001, Ice Perfection Systems Inc. ("IPS"), the franchising subsidiary of Arctic Glacier, filed a Uniform Franchise Offering Circular ("UFOC") in the United States. In late 2002, after a lengthy and time-consuming regulatory approval process, IPS received approval to offer franchises under the UFOC in a number of states that represent key markets of interest to us. To date, IPS has established distribution agreements with five packaged ice manufacturers in the United States; licensing them to produce, market and distribute their packaged ice products as Arctic Glacier® Premium Ice. Three agreements were concluded in late 2002 (two were formerly licensees under a previous program) and two in early 2003. In addition, Arctic Glacier has established a distribution agreement with a packaged ice manufacturer in Canada under a similar arrangement. These agreements provide us with an additional revenue source along with improved ability to service national customers. These agreements expand the market presence of Arctic Glacier® Premium Ice in Iowa, Missouri and South Dakota in the United States and Ontario in Canada. In addition, the agreements signed in early 2003 establish the presence of Arctic Glacier® Premium Ice for the first time in the northeastern United States, in Maine, Massachusetts, New Hampshire and Vermont. We intend to continue to energetically pursue this growth strategy in 2003 and beyond.

Results of Operations

The Fund is considered to be a continuation of The Arctic Group Inc. following the continuity of interest method of accounting. As a result, the financial results for the year ended December 31, 2002 reflect a continuation of The Arctic Group Inc. and comparative figures for the year ended December 31, 2001 are those of The Arctic Group Inc.

Sales

Sales reached a new high of $91.7 million in 2002, surpassing the previous record of $91.4 million established in 2001 by $0.3 million. Packaged ice sales were up approximately $3.6 million or 4% as a result of increased unit volumes and higher average sales prices. All of the sales growth occurred in our existing market areas as no acquisitions were made during the year. This organic growth more than offset the impact of the divestiture during the year of assets related to non-core business operations with annualized sales of $3.5 million.

Unit volumes were up in 2002 even though weather conditions were less favorable than those in 2001. Most of Canada enjoyed good summer weather conditions, warmer and drier than average, from late June until well into September, although August was unseasonably cold in much of Western Canada. This more than offset the effect of a spring that was one of the coldest in recent history and had higher than normal precipitation, putting a significant damper on outdoor activity. In fact, much of eastern and central Canada experienced record-setting low temperatures during the important Victoria Day long weekend, which marks the traditional start of the peak summer sales season. Fall temperatures were also below normal in most of our Canadian sales areas.

Similarly, our key northern U.S. markets experienced unseasonably cold weather this spring, including during the key Memorial Day long weekend. The return to average to above average temperatures in July and August was tempered by above average precipitation in the upper Mississippi Valley and was not enough to overcome the disappointing spring results. In addition, fall temperatures quickly dropped below seasonal norms, although the impact of this downturn in weather was mitigated by a return to more normal consumer patterns compared to those of the fall of 2001, which were influenced by the September 11 terrorist attacks. Our southern U.S. markets ran counter to this trend, enjoying more favorable spring weather conditions which were negated by summer temperatures that were cooler than those of preceding years.

Weather conditions, either favorable hot and dry conditions or unfavorable cool and rainy conditions, can have a significant effect on sales levels in a given market area, especially during the busy summer months. The results of 2002 demonstrate that the broad geographic diversity of the markets that we service tends to insulate overall sales levels from the impact of unusual weather conditions in any one market area.

Sales of ancillary products and services were down in 2002 primarily as a result of divesting assets related to non-core business operations. In February, we divested of a carbon dioxide business that serviced the northern Alberta market, and in May we divested of an equipment and leasing business that serviced hotels and restaurants in western Texas. Sales of ancillary products and services currently account for approximately 5% of total annual sales.

Cost of sales, selling, general and administration expenses

Cost of sales, selling, general and administration expenses increased by $0.4 million, from $66.3 million in 2001 to $66.7 million in 2002. As percentage of sales, costs increased slightly from 72.6% of sales in 2001 to 72.7% in 2002.

The increase in costs in 2002 is primarily due to increased sales of packaged ice products and additional costs incurred during the summer to maintain customer service levels. The prolonged period of heat that affected some of our markets created a situation where demand exceeded our capacity in certain of those markets, resulting in incremental freight costs to ship packaged ice to these markets from other company locations. In some cases, ice was purchased and shipped from third parties. These incremental costs more than offset the cost savings realized from the continued focus on improving the efficiency of existing operations, finalizing the rationalization of previously acquired operations and divesting non-core business operations.

The increase in costs as a percentage of sales is primarily the result of two factors:

- The higher per unit cost of ice that was shipped from other company locations during the summer, or purchased and shipped from third parties, to maintain customer service levels in markets where demand exceeded our capacity; and,
- The unseasonably cool spring in virtually all of our sales markets increased costs as a percentage of sales during the spring season, as we incurred normal spring ramp-up costs to recruit and train seasonal production and distribution staff prior to the start of the peak summer season. These costs are fixed and do not decline when spring sales are down due to inclement weather.

These factors more than offset the cost reductions that resulted from improving the efficiency of existing operations and finalizing the rationalization of previously acquired operations.

EBITDA[1]

		($000's)
	2002	2001
Sales	$ **91,719**	$ 91,388
EBITDA	**25,004**	25,053
EBITDA Margin (in %)	**27.3%**	27.4%

Earnings before interest, taxes, depreciation, amortization and non-recurring expenses (EBITDA) totaled $25.0 million in 2002, a slight decrease compared to $25.1 million in 2001. This decrease was primarily due to the additional costs associated with purchasing and shipping ice into certain market areas that enjoyed prolonged hot weather and the sale of non-core business operations early in the year.

EBITDA performance as a percentage of sales (EBITDA margin) totaled 27.3% in 2002, which was comparable to the level of 27.4% for the previous year. The slight decrease in EBITDA margin was primarily due to the additional costs incurred in the summer and fixed ramp-up costs during the spring when sales were down, which more than offset the cost reductions realized from rationalizing and improving the efficiency of operations.

Amortization

Amortization is the non-cash expense related to properly matching the cost of capital assets, deferred financing, deferred development costs and other assets to their estimated useful life and period of benefit to the Fund. Amortization increased by $0.3 million or 3%, from $9.5 million in 2001 to $9.8 million in 2002. As a percentage of sales, amortization increased from 10.4% in 2001 to 10.7% in 2002. Amortization was comprised of:

		($000's)
	2002	2001
Capital assets	$ **8,352**	$ 8,105
Deferred financing costs	**1,059**	1,205
Deferred development costs	**151**	106
Other	**229**	121
	1,439	1,432
Total amortization	$ **9,791**	$ 9,537

Amortization of capital assets increased by $0.2 million or 3%, from $8.1 million in 2001 to $8.4 million in 2002 as a result of capital expenditures made during 2001 and 2002 and the weaker Canadian dollar during the first three quarters of 2002 which increased the Canadian dollar value of amortization of United States assets compared to 2001.

Amortization of other assets was unchanged at $1.4 million in 2002. Increases in 2002 came from a full year of amortization on the deferred development costs of the in-store packaged ice machine, and commencing amortization of a new non-competition agreement and the costs of establishing the franchise program. These increases were offset by a reduction in amortization of deferred financing costs as a result of writing off costs related to the senior credit facility and subordinated debentures in March 2002 to gain on settlement of long-term debt and the liability and equity component of the 8.25% convertible debentures in May 2001.

Interest

Interest expense decreased by $7.8 million or 66%, from $11.8 million in 2001 to $4.0 million in 2002. As a percentage of sales, interest expense decreased from 12.9% in 2001 to 4.3% in 2002.

The decrease in interest expense in 2002 resulted from a substantial reduction in long-term debt levels and from lower average interest rates. The Fund used proceeds from the initial public offering of Fund units in March 2002 to reduce the Company's long-term debt, resulting in a decrease of $69 million or 56%, from $123.3 million at December 31, 2001 to $54.3 million at December 31, 2002. The reorganization into an income fund and the significantly improved debt to equity and debt to EBITDA ratios resulted in more favorable pricing of the new credit facility, reducing our debt service costs. The average cost of debt decreased to 5.8% in 2002 from 9.6% in 2001.

Earnings from operations

Earnings from operations, which represents earnings before taxes, goodwill charges, gains or losses on disposal of assets and goodwill and non-recurring charges increased by $7.5 million or 200%, from $3.8 million in 2001 to $11.3 million in 2002. This increase was primarily the result of lower interest costs in 2002.

Loss (gain) on settlement of long-term debt

In March 2002, the proceeds from the initial public offering of Fund units and the proceeds from the new credit facility were used to repay most of the long-term debt outstanding, including the balance of $84.5 million on the multi-currency non-revolving credit facility, the 12.5% subordinated debentures including accrued interest and prepayment penalties, and $3.0 million of loans payable. A gain of $0.8 million was realized on the settlement of debt, comprised of a $3.3 million gain on the settlement of the debentures reduced by charges of $1.6 million to write-off the unamortized deferred financing costs relating to the settlement of the debt facilities and $0.9 million to terminate an interest rate swap.

In 2001 a loss of $4.7 million was incurred representing a non-cash charge resulting from the settlement of convertible debentures during the year. The terms of the U.S. $18.4 million debentures were changed, eliminating the conversion privilege and resulting in the settlement of the liability and equity component of the original convertible debentures for accounting purposes. The settlement of the liability component resulted in a loss of $4.7 million which was attributable to the difference between the fair value and the carrying value of the liability component at the settlement date, write-off of the unamortized deferred financing costs and the fair value of the 6.9 million warrants issued. The settlement of the equity component resulted in a decrease to the cumulative deficit of $2.6 million.

(1) Certain earnings measures, such as EBITDA, are not recognized measures under Canadian generally accepted accounting principles (GAAP). Management believes that in addition to net income (loss), EBITDA is a useful supplemental measure as it provides investors with an indication of cash available for distribution prior to debt service, capital expenditures and income taxes. Investors should be cautioned, however, that EBITDA should not be construed as an alternative to net income (loss) determined in accordance with GAAP as an indicator of the Fund's performance. The Fund's method of calculating EBITDA may differ from other companies and, accordingly, EBITDA may not be comparable to measures used by other companies.

Loss (gain) on disposal of capital and operating assets and goodwill

Gains on disposal of capital and operating assets and goodwill totaled $$0.8 million in 2002, comprised of a gain of $1.5 million from the sale of assets of our non-core carbon dioxide business in northern Alberta, offset by net losses totaling $0.6 million from the sale of assets of our non-core equipment business in Texas and $0.1 million from the sale of surplus property and redundant equipment.

Losses on disposal of capital assets and goodwill totaled $0.4 million in 2001 from the sale and disposal of production and distribution assets in the United States made redundant by our rationalization strategy.

Non-recurring expenses

Non-recurring expenses totaled $1.4 million in 2002, including $0.8 million for completing the Plan of Arrangement and reorganizing The Arctic Group Inc. into an income fund. The balance of $0.6 million includes severance and other costs related to centralizing corporate data, accounting and administrative functions along with costs associated with resolving issues and contracts for acquisitions made in previous years.

Non-recurring expenses totaled $0.7 million in 2001 to restructure certain long-term debt during the year and to amalgamate and wind-up a number of Canadian and regional operating companies into the national operating company.

Income tax expense

The Fund is a mutual fund trust as defined under the Income Tax Act, and as a result is not subject to taxation on its income to the extent that it is distributed to unitholders. Accordingly, the consolidated tax rate for 2002 was substantially lower than the Canadian statutory rate of 39.0%.

The income tax recorded in the consolidated financial statements all relates to Arctic Glacier and its subsidiaries. Income tax expense increased by $1.2 million, from $0.9 million in 2001 to $2.1 million in 2002.

Income tax expense of $2.1 million in 2002 was comprised of $1.1 million of income tax on earnings from operations, after deducting earnings of the Fund, $0.6 million of large corporation, capital, state and withholding taxes, $0.3 million on gain on settlement of long-term debt, $0.3 million on gain on disposal of capital and operating assets and goodwill, and $0.4 million related to the recognition of income tax rate changes on future income taxes. These amounts were offset by income tax recoveries of $0.6 million on non-recurring expenses.

Income tax expense of $0.9 million in 2001 was comprised of $1.7 million of income tax on earnings from operations and $0.7 million of large corporation, capital, state and withholding taxes, offset by income tax recoveries of $0.6 million on loss on settlement of long-term debt, $0.5 million on loss on disposal of capital assets and goodwill and non-recurring expenses and $0.4 million related to the recognition of future income tax reductions in Canada.

Goodwill charges

In 2002 the Fund adopted the new CICA accounting standards for goodwill and other intangible assets. Under this new standard, goodwill and other intangible assets with indefinite lives are not amortized. As required by the new standard, the Fund completed a transitional impairment test and determined that an impairment loss existed in the amount of $2.0 million at January 1, 2002 related to the goodwill for a reporting unit in the United States. This impairment loss has been recorded as the cumulative effect of a change in accounting policy and an increase in the opening balance of the cumulative deficit at January 1, 2002. No other impairment losses have occurred.

Goodwill charges in 2001 totaled $1.8 million, net of applicable future income taxes.

Net earnings and earnings per unit

Net earnings totaled $9.2 million for 2002, compared to a net loss of $4.8 million in 2001. On a per unit basis, net earnings totaled $0.67 (basic) in 2002, compared to a loss of $0.84 (basic) in 2001.

Liquidity and Capital Resources

The reorganization of The Arctic Group Inc. into the Arctic Glacier Income Fund in March 2002 and the simultaneous initial public offering of Fund units and establishment of a new credit facility have resulted in a dramatically improved capital structure. Equity has increased by $68.1 million or 138% while total long-term debt (including obligations under capital leases) has decreased by $69.0 million or 56%.

Cash and cash equivalents increased by $10.0 million during 2002, from $1.9 million at December 31, 2001 to $11.9 million at December 31, 2002 as a result of improved cash flow from operations along with proceeds from the IPO. Similarly, working capital increased by $9.6 million or 175% during 2002, from $5.5 million at December 31, 2001 to $15.1 million at December 31, 2002.

The Fund had total debt outstanding at December 31, 2002 of $54.3 million, comprised of senior debt of $53.2 million, obligations under capital leases of $0.8 million and other loans payable of $0.3 million. This compares to $123.3 million of total debt at December 31, 2001, comprised of senior debt of $83.3 million, subordinated debentures and accrued interest of $30.1 million, other loans payable of $8.8 million and obligations under capital leases of $1.1 million. Net debt(1) decreased by $78.9 million or 65% from $121.3 million at the end of 2001 to $42.4 million at the end of 2002.

The Fund's net debt(1) to equity ratio at the end of the year has improved from 2.5:1 in 2001 to 0.4:1 for 2002, while the net debt(1) to EBITDA ratio has improved from 4.8:1 in 2001 to 1.7:1 in 2002. The Fund's intention is to maintain a net debt to EBITDA ratio less than 2.25:1, excluding any bridge financing of future acquisitions.

Cash flow from operations, together with cash and cash equivalents on hand and unutilized credit available on existing credit facilities are expected to be sufficient to meet operating requirements, capital expenditures and anticipated distributions.

(1) Net debt is defined as total long-term debt and obligations under capital leases reduced by cash and cash equivalents.

Operating activities

Funds from operations increased by $5.3 million or 45%, from $11.9 million in 2001 to $17.2 million in 2002. The increase is primarily due to interest expense savings in 2002 of $7.8 million compared to 2001. Offsetting this were additional costs in 2002 of $0.9 million to terminate an interest rate swap contract and $0.8 related to the Plan of Arrangement that reorganized The Arctic Group Inc. into the Arctic Glacier Income Fund.

Changes in working capital items provided a net source of cash of $0.2 million in 2002. Accounts receivable balances decreased by 18% as a result of the divestiture of non-core businesses during 2002 along with reduced sales in the fourth quarter from cooler than normal fall weather conditions. Inventory was down 18% due to the divestiture of non-core businesses. Prepaid expenses decreased by 50% due to the divestiture of non-core businesses and changes made to certain insurance policy renewal dates to better align them with our fiscal period. Offsetting these sources of cash was a decrease in accounts payable and accrued liabilities of 38%, the result of divesting non-core businesses, paying professional and other fees outstanding at the end of 2001 that were related to previous acquisitions and the timing of interest and tax payments.

Financing activities

On March 22, 2002, The Arctic Group Inc. was successfully reorganized into the Arctic Glacier Income Fund. The Fund issued 6,598,328 units to the shareholders of The Arctic Group Inc. in exchange for all of their common shares. Each shareholder indirectly received one Fund unit at a value of $9.50 in exchange for each six common shares that they held. At the same time, the Fund completed an initial public offering of its Fund units, selling 9,052,632 units at a price of $9.50 per unit for net proceeds of $79.1 million after deducting the expenses related to the offering.

The Fund also entered into a new credit facility in March 2002 with Toronto Dominion Bank and RoyNat Inc. The new facility is a multi-currency, revolving facility to a maximum of approximately $60.4 million, including a $5.0 million line of credit. The new facility bears interest at floating rates and does not require principal repayment prior to maturity in March 2004. At December 31, 2002, the Fund had $54.2 million outstanding on the new credit facility, comprised of $33.2 million repayable in U.S. currency and $1.8 million repayable in Canadian currency. These amounts are offset by $0.9 million representing debt service reserve funds that are on deposit with the lender. Most of the funds are drawn in U.S. currency, and bear interest at floating rates based on LIBOR that average 3.9% at December 31, 2002. No amounts were drawn on the line of credit at December 31, 2002 and the entire amount was available to the Fund.

The Fund generated cash of $133.9 million from financing activities in 2002 including $79.1 million of net proceeds from the IPO, $54.2 million of long-term debt drawn on the new credit facilities, and $0.6 million from the exercise of options for common shares of The Arctic Group Inc. prior to the reorganization.

The Fund used cash in financing activities of $127.6 million during 2002 as follows:

- $2.1 million proceeds from the sale of non-core assets were applied against the senior credit facility prior to the reorganization;
- $84.9 million from the proceeds of the IPO and the new credit facility were used to retire the Bank of Nova Scotia and RoyNat Inc. senior credit facilities concurrent with the reorganization;
- $33.8 million from the proceeds of the IPO and the new credit facility were used to retire the 12.5% subordinated debentures and cancel the 6.9 million warrants that were issued to the holders of the debentures. This included additional settlement costs incurred of $3.8 million. For accounting purposes, the total costs were allocated based on the fair value of the 12.5% debentures and the warrants at the date of settlement, which resulted in $26.8 million included in payment of debt and $7.0 million included as the cost of canceling the warrants;
- $1.2 million drawn on the new credit facility was used to repay the equity portion of the 8.5% convertible debentures upon maturity on December 8, 2002. In addition, $0.2 million of interest was paid to holders of the convertible debentures during the year;
- $5.1 million to retire loans payable during the year; and,
- $0.3 million was applied against obligations under capital lease.

In addition, the Fund paid distributions to unitholders totaling $11.4 million to December 31, 2002 subsequent to the reorganization into an income fund.

Investing activities

Cash used in investing activities decreased by $3.3 million, from $5.8 million in 2001 to $2.5 million in 2002, primarily due to proceeds from disposition of non-core operating assets in 2002:

($000's)

		2002		2001
Net sustaining capital expenditures	$	**3,317**	$	3,541
Growth capital expenditures		**97**		–
Proceeds from disposition of non-core operating assets		**(3,105)**		–
		309		3,541
Additions to goodwill and other intangibles and other assets		**2,195**		2,237
Cash used in investing activities	$	**2,504**	$	5,778

Capital expenditures include sustaining and growth capital expenditures. Sustaining capital expenditures are made to maintain existing levels of production and service and are funded from operating cash flow. Growth capital expenditures are made to expand our business or generate cost savings and are generally funded by cash or by additional debt or equity and are excluded from distributable cash flow. Growth capital expenditures are made only when it is expected that they would ultimately result in increased distributable cash.

Net sustaining capital expenditures totaled \$3.3 million or 3.6% of sales in 2002, compared to \$3.5 million or 3.9% of sales in 2001. We expect that net sustaining capital expenditures will average approximately 4% of sales. Growth capital expenditures consisted primarily of investments in equipment and merchandisers that are expected to increase distributable cash. No acquisitions were made in 2001 or 2002. During 2002, we generated proceeds of \$3.1 million as a result of divesting of assets related to non-core business activities. In February we disposed of a carbon dioxide business that serviced the northern Alberta market, and in May we disposed of an equipment and leasing business that serviced hotels and restaurants in western Texas.

Additions to goodwill and other intangibles and other assets totaled \$2.2 million in 2002, comprised of \$2.1 million of costs related to establishing the new credit facility, and \$0.1 million of costs related primarily to establishing the franchise program and registering certain trademarks.

Business Risks

The Fund and its subsidiaries are subject to certain risks inherent in the operation of its business, including significant risks such as the effect of weather and seasonality on operating results, competition, interest rates and currency exchange rates. Risk and risk exposures to these and other risks are managed through a combination of insurance, a system of internal controls and sound operating practices.

Weather and seasonality

Weather can have a significant effect on operating results. Rain and cool weather can have an adverse effect on sales and earnings in any given market area, particularly if it occurs in the busy summer months.

The packaged ice industry is very seasonal. The Company usually generates significant sales and profits in the second and third quarters, with lower sales and significant losses incurred in the first and fourth quarters. Cash flows peak in the third and fourth quarters and drop off in the first and second quarters.

The Fund and its subsidiaries believe that its diverse geographic area of operations, and its liquidity and access to cash resources minimizes the impact of these risks on financial performance.

Competition

The packaged ice industry is very competitive. The Company faces a number of competitors including smaller independent ice manufacturers, retailers that manufacture and package ice at individual store locations, and one larger competitor with a similar acquisition strategy. Competition exists mainly on a regional basis with the main competitive factors being price, service and quality. Additionally, there can be no assurance that competitors will not achieve greater market acceptance due to pricing or other factors.

The Company is well equipped to deal with local competition through a strong relationship with customers, and in particular national chain accounts, size and efficiency of operation and a branded market leadership position. The Company's financial results, combined with the Fund's improved access to capital for future growth and expansion, significantly limit the ability of local competitors to have a significant effect on the financial results of the Fund.

Interest rates

The Fund and its subsidiaries have certain floating rate debt and may be negatively impacted by increases in interest rates, the effect of which would increase interest expense. To the contrary, if interest rates decline interest expense would be reduced.

At December 31, 2002, approximately \$53.2 million of long-term debt was subject to floating rates and \$1.1 million had fixed rates. As a result, a one-percentage point increase in average interest rates would increase annual interest expense by approximately \$0.5 million.

The Fund continually monitors interest rates and takes appropriate action necessary to manage exposure in this area.

Currency risk

A substantial portion of the Company's sales are now, and are expected to continue to be, realized in currencies other than Canadian dollars, primarily the United States dollar. Future growth is expected to be concentrated in the United States. Fluctuations in the exchange rate between the Canadian dollar and such other currencies may have an adverse effect on financial results.

The Fund and its subsidiaries have hedged their debt service capability by establishing their debt on a multi-currency basis and funding U.S. acquisitions with debt denominated in U.S. dollars, thereby allowing them to service and repay this debt directly from U.S. cash flows. The Fund will continue to monitor exchange rates and take the appropriate action necessary to manage exposure in this area.

Outlook

The Fund is well positioned for future growth. Over the past few years, Arctic Glacier has made strategic investments in high-volume production facilities and distribution networks, quality control systems for integrated water filtration and ultraviolet sterilization, rigorous product quality testing standards, and advanced product drying technology. Since 1996, our disciplined acquisition strategy has resulted in the acquisition of 46 packaged ice businesses in Canada and the United States with an investment of more than $135 million. This has created the critical mass to further leverage our investments in infrastructure and brand development. Finally, the reorganization of Arctic Glacier into an income fund in March 2002 and the concurrent public offering of equity has provided the Fund with a financial platform for growth via access to both debt and equity capital.

With this foundation in place, our strategy is to grow the business and increase distributable cash via several different routes. One focus will be to identify and evaluate opportunities for acquisition, including both platform acquisitions of market leaders and strategic acquisitions of smaller companies that are contiguous with current or planned future market areas. We will also energetically pursue opportunities to franchise suitable independent packaged ice manufacturers in selected markets now that we have received approval under our UFOC to offer franchises in a number of states that represent key markets. We expect that most of our acquisitions and new franchises will occur in the United States where the most significant opportunities exist.

We also anticipate that we will continue to see margins increase over time. Our strategy is to continue to improve the efficiency of production processes, distribution networks and administrative infrastructure, both for existing and new operations. At the same time, we will continue to invest in product quality and brand awareness to take advantage of the increasing consumer focus on health and the safety of the products they consume and use. In addition, we will continue to look at new product offerings. We are currently test marketing a re-closeable package that has received positive market acceptance by both retailers and consumers. We anticipate expanding this new product offering into more market areas in 2004.

We believe that these factors place the Fund in a strong position to show increased distributable cash in 2003 and beyond. In recognition of the strong operating results in 2002 and expected results in 2003, the Trustees of the Fund increased the monthly distributions for 2003 to 8.92 cents per unit, equivalent to $1.07 per unit on an annualized basis.

Forward-Looking Statements

This annual report contains forward-looking statements, which reflect management's expectations regarding the future growth, results of operations, performance and business prospects and opportunities of the Fund and its subsidiaries. Forward-looking statements typically contain words such as "anticipates", "believes", "continue", "could", "expects", "indicates", "plans" or similar expressions suggesting future outcomes or events. Such forward-looking statements reflect management's current beliefs and are based on information currently available to management.

Forward-looking statements involve significant risks and uncertainties. A number of factors could cause actual results to differ materially from the results discussed in the forward-looking statements including risks associated with the impact of seasonality on labor and distribution, competition, compliance with government regulations, currency risk, dependence on key personnel, product liability, environmental risk, risks associated with acquisitions, expansion into the United States, effects of price changes in raw materials, restrictions on potential growth and debt refinancing. Although the forward-looking statements contained in this annual report are based upon what management believes to be reasonable assumptions, the Fund cannot assure readers that actual results will be consistent with these forward-looking statements.

These forward-looking statements are made as at the date of this annual report, and the Fund assumes no obligation to update or revise them, either publicly or otherwise, to reflect new events, information or circumstances.

Financial Results

2002

Management's Responsibility for Financial Reporting

The accompanying consolidated financial statements of Arctic Glacier Income Fund for the year ended December 31, 2002 and all information in this annual report are the responsibility of management. Financial information contained elsewhere in the annual report is consistent with that shown in the consolidated financial statements. The consolidated financial statements were prepared by management in accordance with Canadian generally accepted accounting principles, applied on a consistent basis. The significant accounting policies, which management believes are appropriate for the Fund, are described in note 2 to the consolidated financial statements.

Management is responsible for the integrity and objectivity of the consolidated financial statements. Estimates are necessary in the preparation of these statements and, based on careful judgements, have been properly reflected. Management has established systems of internal control which are designed to provide reasonable assurance that assets are safeguarded from loss or unauthorized use, and to produce reliable accounting records for the preparation of financial information.

The Fund's independent auditors, KPMG LLP, have been appointed by the unitholders to audit the financial statements and express an opinion thereon.

The Board of Trustees is responsible for ensuring that management fulfills its responsibilities for financial reporting and internal control. The Board of Trustees carries out this responsibility principally through its audit committee, composed entirely of outside and unrelated directors. The audit committee meets regularly with financial management of the Fund and with the independent auditor to discuss internal controls, audit matters, financial reporting issues and reports to the Board of Trustees thereon. The audit committee also reviews and approves the consolidated financial statements for inclusion in the annual report. The independent auditor has full and free access to the audit committee.

February 28, 2003

Robert J. Nagy
Chairman and Chief Executive Officer

Keith W. McMahon, C.A.
Chief Financial Officer

Auditors' Report to the Unitholders

To the Unitholders of Arctic Glacier Income Fund

We have audited the consolidated balance sheets of Arctic Glacier Income Fund as at December 31, 2002 and 2001 and the consolidated statements of operations, deficit and cash flows for the years then ended. These financial statements are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Fund as at December 31, 2002 and 2001 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

KPMG LLP

Chartered Accountants

Winnipeg, Canada

February 28, 2003

Consolidated Balance Sheets

As at December 31, 2002 and 2001

(thousands)		2002		2001
ASSETS				
Current assets				
Cash and cash equivalents	$	**11,919**	$	1,946
Accounts receivable		**6,715**		8,245
Inventories		**2,377**		2,911
Prepaid expenses		**1,212**		2,510
		22,223		15,612
Capital assets (Note 3)		**76,770**		83,585
Other assets (Note 4)		**3,107**		4,051
Goodwill and other intangibles (Note 5)		**80,838**		83,849
	$	**182,938**	$	187,097
LIABILITIES AND UNITHOLDERS' EQUITY				
Current liabilities				
Accounts payable and accrued liabilities	$	**5,114**	$	8,247
Distributions payable to unitholders		**1,370**		–
Current obligations under capital leases		**325**		312
Principal due within one year on long-term debt		**292**		1,535
		7,101		10,094
Obligations under capital leases (Note 6)		**478**		783
Long-term debt (Note 7)		**53,227**		120,654
Future income taxes (Note 13)		**4,514**		6,066
Unitholders' equity				
Capital contributions (Note 8)		**129,951**		46,394
Contributed surplus		**–**		1,692
Equity portion of convertible debentures (Note 9)		**–**		5,098
Cumulative deficit		**(2,738)**		(7,063)
Cumulative distributions (Note 10)		**(12,761)**		–
Cumulative translation adjustment		**3,166**		3,379
		117,618		49,500
	$	**182,938**	$	187,097

See accompanying notes to consolidated financial statements.

On behalf of the Board:

Robert J. Nagy, Trustee

Keith F. Burrows, Trustee

Consolidated Statements of Operations

Years ended December 31, 2002 and 2001

(thousands, except per unit amounts)		2002		2001
Sales	$	**91,719**	$	91,388
Cost of sales, selling, general and administration expenses		**66,715**		66,335
Earnings before the undernoted		**25,004**		25,053
Amortization		**9,791**		9,537
Interest (Note 11)		**3,953**		11,758
Earnings from operations		**11,260**		3,758
Loss (gain) on settlement of long-term debt (Note 12)		**(754)**		4,747
Loss (gain) on disposal of capital and operating assets and goodwill		**(779)**		378
Non-recurring expenses		**1,420**		716
Earnings (loss) before income taxes		**11,373**		(2,083)
Income tax expense (reduction) (Note 13)				
Current		**1,102**		954
Future		**1,044**		(48)
		2,146		906
Earnings (loss) before goodwill charges		**9,227**		(2,989)
Goodwill charges (net of applicable future income taxes of $535)		**–**		1,829
Earnings (loss) for the year	$	**9,227**	$	(4,818)
Earnings (loss) per unit (Note 14)				
Basic	$	**0.67**	$	(0.84)
Diluted	$	**0.66**	$	(0.84)

See accompanying notes to consolidated financial statements.

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Consolidated Statements of Deficit

Years ended December 31, 2002 and 2001

(thousands)		2002		2001
Deficit, beginning of year	$	**(7,063)**	$	(4,579)
Restatement due to change in accounting policy regarding goodwill (Note 2)		**(2,010)**		–
As restated		**(9,073)**		(4,579)
Earnings (loss) for the year		**9,227**		(4,818)
Interest on equity portion of convertible debentures [net of applicable future income taxes of $78 (2001 - $166)]		**(117)**		(265)
Settlement of equity component of convertible debentures (Note 7)		**–**		2,599
Settlement of warrants (Note 8)		**(2,775)**		–
Deficit, end of year	$	**(2,738)**	$	(7,063)

See accompanying notes to consolidated financial statements.

Consolidated Statements of Cash Flows

Years ended December 31, 2002 and 2001

(thousands)	2002	2001
Cash from (used in):		
Operating activities		
Earnings (loss) for the year	$ 9,227	$ (4,818)
Adjustments for:		
Amortization	9,791	9,537
Goodwill charges	–	1,829
Non-cash portion of gain on settlement of long-term debt	(1,609)	–
Loss on settlement of convertible debentures	–	4,747
Accretion of subordinated convertible debenture principal	–	279
Non-cash portion of loss (gain) on disposal of capital and operating assets and goodwill	(1,204)	378
Future income taxes (reduction)	1,044	(48)
Funds from operations	17,249	11,904
Changes in working capital items (Note 15)	229	1,951
	17,478	13,855
Investing activities		
Additions to capital assets	(3,831)	(4,331)
Proceeds from disposal of capital assets and goodwill	3,522	790
Additions to goodwill and other intangibles and other assets	(2,195)	(2,237)
	(2,504)	(5,778)
Financing activities		
Proceeds from long-term debt	54,195	2,462
Principal repayments on long-term debt	(118,898)	(7,631)
Principal payments under capital lease obligations	(292)	(404)
Interest on equity portion of convertible debentures	(195)	(431)
Repayment of equity portion of convertible debentures	(1,233)	–
Shares issued on exercise of options	600	–
Units issued, net of issue costs	79,092	–
Cancellation of warrants	(7,049)	–
Cash distributions paid	(11,391)	–
	(5,171)	(6,004)
Foreign exchange gain on cash held in foreign currency	170	81
Increase in cash and cash equivalents	9,973	2,154
Cash and cash equivalents (bank indebtedness), beginning of year	1,946	(208)
Cash and cash equivalents, end of year	$ 11,919	$ 1,946
Supplementary cash flow information		
Interest paid	$ 4,862	$ 10,386
Income taxes paid	1,360	715

See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements

Years ended December 31, 2002 and 2001
(amounts in thousands, except per unit amounts)

1. ORGANIZATION

Arctic Glacier Income Fund (the "Fund") is an unincorporated, open-ended limited purpose mutual fund trust established under the laws of the Province of Alberta on January 22, 2002. The Fund was created to invest in the packaged ice manufacturing and distribution business in Canada and the United States, initially through the acquisition of The Arctic Group Inc. by the Fund's wholly-owned subsidiary, Arctic Glacier Inc., which was completed on March 22, 2002. Arctic Glacier Inc. subsequently amalgamated with The Arctic Group Inc., with the amalgamated corporation retaining the name Arctic Glacier Inc. (the "Company").

The Company operates in the packaged ice industry in Canada and the United States and is active in acquiring ice manufacturing and distribution companies. In addition, the Company licenses its trade names and proprietary technology to independently owned companies in Canada and the United States under franchise and license agreements.

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation and consolidation

The Fund is considered to be a continuation of The Arctic Group Inc. following the continuity of interest method of accounting. As a result, these consolidated financial statements reflect a continuation of The Arctic Group Inc. and comparative figures for the year ended December 31, 2001 are those of The Arctic Group Inc.

The consolidated financial statements include the accounts of the Fund and its subsidiaries, all of which are wholly-owned. All significant inter-company transactions and balances have been eliminated.

Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, balances with banks, and highly liquid investments having original terms to maturity of three months or less when acquired. Cash and cash equivalents are valued at cost plus accrued interest, which approximates market value.

Inventories

Inventories are valued at the lower of cost and net realizable value.

Capital assets

Capital assets are recorded at cost. Vehicles and equipment under capital leases are initially recorded at the present value of minimum lease payments at the inception of the lease. Amortization is provided on the following basis and at the following annual rates:

Asset	Basis	Rate
Buildings	Straight-line	4%
Machinery and equipment and equipment under capital leases	Straight-line	5%
Merchandisers	Straight-line	6.67% - 10%
Vehicles and vehicles under capital leases	Straight-line	13% - 20%
Computer and office equipment	Straight-line	20% - 33%
Leasehold improvements	Straight-line	20%

Other assets

Other assets are recorded at cost.

Deferred financing costs consist of financing fees incurred in connection with the issue of debt or the establishment of credit facilities. These costs are amortized on a straight-line basis over the term of the related debt or credit facility.

Deferred development costs represent costs incurred to develop an in-store packaged ice machine. These costs are deferred and amortized over ten years, being the estimated useful life of the technology.

Other assets consist primarily of non-competition agreements and costs associated with establishing the franchise and licensing programs. These costs are amortized on a straight-line basis over periods ranging from two to five years.

Notes to Consolidated Financial Statements

Years ended December 31, 2002 and 2001
(amounts in thousands, except per unit amounts)

Goodwill and other intangibles

Effective January 1, 2002, the Fund adopted new accounting standards for goodwill and other intangible assets on a retroactive basis without restatement of prior periods. Goodwill is the excess of the purchase price paid for acquired operations over the fair value of the net assets acquired.

Under the new standard, goodwill and other intangible assets with indefinite useful lives are not amortized, but are subject to a fair value impairment test to be performed periodically to ensure that the fair value of goodwill and intangible assets with indefinite lives remains greater than, or equal to, the carrying value. Any excess of the carrying value over fair value will be charged to income in the period in which the impairment is determined.

As a result of the application of the new standard, the Fund segregated from goodwill the unamortized trademark costs for the name Arctic Glacier that was obtained in a previous acquisition. The unamortized value of this trademark at January 1, 2002 was $1,336, which has been reclassified to other intangibles. Under the new standard, no amortization is required on the value of the trademark, effective January 1, 2002, because the asset has an indefinite life.

Under the new standard, the Fund is required to complete a transitional impairment test to identify whether there is any potential impairment to goodwill and trademark costs as at January 1, 2002. The Fund has determined that an impairment loss in the amount of $2,010 existed related to the goodwill for one of its reporting units in the United States. The impairment tests completed for the Fund's other reporting units have determined that no other impairment losses have occurred. The impairment loss has been recorded as at January 1, 2002 and has been reflected as the cumulative effect of a change in accounting policy as at the date of adoption. Accordingly, the impairment loss of $2,010 has been recorded as a reduction in the opening balance of goodwill and an increase in the opening balance of the cumulative deficit at January 1, 2002.

The Fund anticipates that the adoption of this new standard will result in a reduction of goodwill charges of approximately $1,674, net of applicable future income taxes, on an annual basis. As required by the new standard, the results of the prior year have not been restated. A reconciliation of reported earnings (loss) to adjusted earnings (loss) excluding the impact of amortization of goodwill and other intangibles with indefinite lives is as follows:

		2002		2001
Earnings (loss) for the year, as reported	$	**9,227**	$	(4,818)
Goodwill charges, net of applicable future income taxes of $535		**–**		1,829
Earnings (loss) for the year, adjusted	$	**9,227**	$	(2,989)
Adjusted earnings (loss) per unit				
Basic	$	**0.67**	$	(0.54)
Diluted	$	**0.66**	$	(0.54)

Revenue recognition

Revenue is recognized when packaged ice and other products are delivered to and accepted by customers. There is no right of return with respect to such products.

Revenue resulting from leased equipment is recognized as earned under contract terms. Royalty fees from franchisees and licensees are recognized when the products are purchased from a third party by the franchisee or distributor, and franchise application fees are recognized when substantial performance has occurred.

Income taxes

The Fund is a mutual fund trust as defined under the Income Tax Act and accordingly, is not subject to taxation on its income to the extent that its income is distributed to its unitholders. The Fund's subsidiaries are subject to tax and follow the asset and liability method for accounting for income taxes. Under this method, future income tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax basis. Future income tax assets and liabilities are measured using enacted or substantively enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on future tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the date of enactment or substantive enactment.

Net earnings (loss) per unit

Basic earnings (loss) per unit is computed by dividing net earnings (loss) by the weighted average units outstanding during the reporting period. Diluted earnings (loss) per unit is calculated based on the weighted average number of units outstanding during the period, plus the effect of dilutive unit equivalents such as options and warrants. The diluted per unit amounts are calculated using the treasury stock method, as if all the unit equivalents where average market price exceeds issue price had been exercised at the beginning of the reporting period, or the period of issue, as the case may be, and that the funds obtained thereby were used to purchase units of the Fund at the average trading price of the units during the period.

Notes to Consolidated Financial Statements

Years ended December 31, 2002 and 2001
(amounts in thousands, except per unit amounts)

Foreign currency translation

The financial statements of the U.S. subsidiaries, considered self-sustaining, are translated in accordance with the current rate method, under which assets and liabilities are translated at the currency exchange rate in effect at the balance sheet date and earnings statement items are translated at the average currency exchange rate for the period. Translation adjustments arising from currency exchange rate fluctuations, including those related to long-term debt denominated in U.S. dollars and designated as a hedge of net investments in self-sustaining foreign operations, are shown as "cumulative translation adjustment" under unitholders' equity until realized, at which time they are transferred to income.

Other monetary assets and liabilities denominated in U.S. dollars have been translated into Canadian dollars at the rate of exchange at the balance sheet date. Gains and losses from translations are recognized in income in the period they occur.

Unit-based compensation

Effective January 1, 2002, the Fund adopted new accounting standards for stock-based compensation and other stock-based payments. The Fund has a Unit Option Plan and can provide compensation to certain trustees, directors, officers and employees in the form of unit options. The Fund follows the intrinsic value based method of accounting for such awards; consequently no expense is recognized for unit options as the strike price thereon is set at or greater than the market price of the Fund's units on the date of issue. When unit options are exercised, the proceeds received by the Fund will be recorded as capital contributions.

Use of estimates

The preparation of financial statements in accordance with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of certain assets and liabilities at the date of the financial statements and the reported amounts of certain revenue and expenses during the period. Actual results could differ from those estimates and assumptions.

3. CAPITAL ASSETS

	Cost	Accumulated Amortization	Net Book Value
Land	$ 2,546	$ –	$ 2,546
Buildings	17,765	3,451	14,314
Machinery and equipment and equipment under capital leases	37,931	7,086	30,845
Merchandisers	33,699	10,574	23,125
Vehicles and vehicles under capital leases	13,458	10,605	2,853
Computer and office equipment	5,027	2,240	2,787
Leasehold improvements	940	640	300
	$ 111,366	$ 34,596	$ 76,770

2001

	Cost	Accumulated Amortization	Net Book Value
Land	$ 2,589	$ –	$ 2,589
Buildings	17,418	2,769	14,649
Machinery and equipment and equipment under capital leases	40,506	7,294	33,212
Merchandisers	32,724	8,426	24,298
Vehicles and vehicles under capital leases	13,654	8,260	5,394
Computer and office equipment	4,446	1,342	3,104
Leasehold improvements	817	478	339
	$ 112,154	$ 28,569	$ 83,585

Amortization in respect of the above capital assets for the year ended December 31, 2002 amounted to $8,352 (2001 - $8,105).

Notes to Consolidated Financial Statements

Years ended December 31, 2002 and 2001
(amounts in thousands, except per unit amounts)

4. OTHER ASSETS

		2002		2001
Deferred financing costs	$	2,031	$	5,171
Deferred development costs		1,517		1,517
Other		964		921
		4,512		7,609
Less accumulated amortization		1,405		3,558
	$	3,107	$	4,051

The aggregate amortization expense for the above assets for the year ended December 31, 2002 totaled $1,439 (2001 - $1,432). This amount is comprised of amortization of deferred financing costs of $1,059 (2001 - $1,205), deferred development costs of $151 (2001 - $106) and other assets of $229 (2001 - $121).

5. GOODWILL AND OTHER INTANGIBLES

		2002		2001
Goodwill	$	79,468	$	83,849
Trademarks		1,370		–
	$	80,838	$	83,849

The changes in the carrying amount of goodwill are as follows:

		2002		2001
Balance, beginning of year	$	83,849	$	80,965
Reclassification of trademark costs to other intangibles (Note 2)		(1,336)		–
Restatement due to change in accounting policy (Note 2)		(2,010)		–
As restated		80,503		80,965
Additions		–		1,589
Amortization		–		(2,364)
Disposal of goodwill		(449)		–
Effects of foreign exchange		(586)		3,659
Balance, end of year	$	79,468	$	83,849

6. OBLIGATIONS UNDER CAPITAL LEASES

The Fund and its subsidiaries lease vehicles and equipment under long-term capital leases. The following is a schedule of future minimum lease payments together with the balance of the obligations under capital leases:

		2002		2001
2002	$	–	$	379
2003		373		357
2004		448		434
2005		46		51
2006		1		–
Total minimum lease payments		868		1,221
Amount representing interest (at rates ranging from 6.0% to 11.9%)		(65)		(126)
Present value of minimum capital lease payments		803		1,095
Less current obligations under capital leases		325		312
	$	478	$	783

(amounts in thousands, except per unit amounts)

7. LONG-TERM DEBT

	2002	2001
Multi-currency revolving facility [(a)]	$ 53,201	$ –
Multi-currency non-revolving facility [(b)]	–	83,297
12.5% subordinated debentures [(c)]	–	29,308
Accrued interest on 12.5% subordinated debentures [(c)]	–	789
Loans payable [(d)]	318	8,795
	53,519	122,189
Less principal included in current liabilities	292	1,535
	$ 53,227	$ 120,654

(a) In March 2002, the Fund and its subsidiaries entered into a new credit facility with a new lender. The new credit facility is multi-currency, revolving to a maximum of approximately $60,400, and includes a $5,000 line of credit. The new credit facility bears interest at a floating rate, which at December 31, 2002 averaged 3.9%, matures March 22, 2004 and does not require scheduled principal repayments prior to maturity. It is secured by debentures issued by the Fund and its subsidiaries together with other security agreements providing both a fixed and floating charge over all the assets and undertakings of the Fund and its subsidiaries. As at December 31, 2002, the Company has incurred financing costs of approximately $2,031 related to this credit facility.

The balance outstanding on the credit facility at December 31, 2002 is $54,151 including $1,775 repayable in Canadian funds and U.S. $33,200 repayable in U.S. funds. This amount has been reduced by $950 representing debt service reserve funds that are on deposit with the lender.

(b) In March 2002, the Fund and its subsidiaries used the proceeds of the initial public offering of the Fund, along with amounts drawn on the new credit facility to repay long-term debt including the balance of $84,897 on the multi-currency non-revolving credit facility. This facility was comprised of a U.S. $68,000 floating rate non-revolving facility and a $5,000 floating rate revolving facility until May 2001, when the non-revolving facility was amended to U.S. $61,500. The non-revolving facility was interest bearing at a floating rate, which at December 31, 2001 averaged 6.4%. In addition to interest, the non-revolving facility was subject to a 0.125% stand-by fee for any unused credit available. At December 31, 2001, the Company and its subsidiaries had U.S. $2,600 unused and available on the non-revolving facility. These facilities were scheduled to mature on May 15, 2004, and the amended non-revolving facility required scheduled principal repayments commencing September 2001. These facilities were secured by debentures issued by the Company together with other security agreements providing both a fixed and floating charge over all the assets of the Company and its subsidiaries.

The balance outstanding on the credit facility at December 31, 2001 was $83,297 including $41,294 repayable in Canadian funds and U.S. $26,371 repayable in U.S. funds.

To reduce the cash flow risk on the non-revolving credit facility associated with fluctuating interest rates, the Company had entered into a retractable interest rate swap contract. The interest rate swap contract was for a notional principal amount of $22,000 on which the Company was required to pay interest at an all-in fixed rate of approximately 9.5% including applicable margins. The interest rate swap contract was terminated by the Company in March 2002 at a cost of $855 (note 12).

(c) In May 2001, the Company entered into an agreement with the holders of the U.S. $18,400 8.25% subordinated convertible debentures, due on August 21, 2004, to amend the terms of the convertible debentures. Under the terms of the agreement, the Company agreed to an increase in the interest rate to 12.5% per annum, of which 8.25% was payable quarterly and the balance of 4.25% per annum was accrued and was to be paid on the maturity date or the purchase date if the debentures were repurchased by the Company. In addition, the Company issued to the holders of the debentures a total of 6,865.0 warrants, each exchangeable into one common share at $0.75 per share and expiring upon the maturity of the amended debentures in August 2004. In exchange, the holders of the debentures agreed to cancel their conversion rights and granted the Company a one-time prepayment option until September 30, 2001 to repurchase the debentures plus accrued and unpaid interest, cancellation charges, and a 10% prepayment fee. This prepayment option was not exercised and had expired. These amendments resulted in a settlement of the liability and equity component of the original convertible debentures for accounting purposes. The settlement of the liability component of the convertible debentures resulted in a loss on settlement of $4,747 which was attributable to the difference between the fair value and the carrying value of the liability component at the date of settlement, write-off of deferred financing costs and the fair value of the 6,865.0 warrants issued. The settlement of the equity component of the convertible debentures resulted in an increase to retained earnings of $2,599.

In March 2002, the Fund and its subsidiaries used the proceeds of the initial public offering of units of the Fund, along with amounts drawn on the new credit facility to repay long-term debt including the 12.5% subordinated debentures plus accrued interest. The settlement of the debentures resulted in a gain of $3,294 related to the excess of carrying value over the fair value of the debentures on the date of settlement (note 12).

(amounts in thousands, except per unit amounts)

(d) The Company and its subsidiaries have various loans and notes payable outstanding at December 31, 2002 totaling $318 (2001 - $8,795). These loans and notes bear interest at a weighted average rate of 5.5% (2001 – 7.4%) and come due on various dates to April 1, 2005. Of the total amount outstanding, $nil (2001 - $2,485) is secured by certain real estate property of the Company and the balance is unsecured.

Of the total amount outstanding, $218 (2001 - $2,529) is repayable in Canadian funds and U.S. $63 (2001 – U.S. $3,934) is repayable in U.S. funds.

Principal repayments until maturity are as follows:

2003	$ 292
2004	53,222
2005	5
	$ 53,519

8. CAPITAL CONTRIBUTIONS

(a) Authorized

The Fund may issue an unlimited number of units pursuant to the Declaration of Trust. Each unit represents an equal fractional undivided beneficial interest in any distributions from the Fund, and in the net assets in the event of termination or wind-up of the Fund. All units are of the same class with equal rights and privileges.

(b) Issued

On March 11, 2002, the shareholders of The Arctic Group Inc. approved a Plan of Arrangement (the "Arrangement") reorganizing The Arctic Group Inc. into an income trust. Pursuant to the Arrangement, on March 22, 2002, the Company, a wholly owned subsidiary of the Fund, acquired from The Arctic Group Inc. shareholders all of the common shares of The Arctic Group Inc. in return for subordinated notes. The Fund then acquired these subordinated notes from the holders in exchange for units in the Fund. As a result, the shareholders of The Arctic Group Inc. indirectly received one unit of the Fund in exchange for six common shares of The Arctic Group Inc. Subsequently, the Fund owned all of the subordinated notes of Arctic Glacier Inc., which in turn owned all of the common shares of The Arctic Group Inc. Arctic Glacier Inc. subsequently amalgamated with The Arctic Group Inc., with the amalgamated corporation retaining the name Arctic Glacier Inc.

Concurrent with the Arrangement, the Fund entered into an Underwriting Agreement whereby the Fund filed a prospectus (the "Offering") for the issuance of 9,052.6 units at $9.50 per unit for net proceeds of $79,092 after issue costs of approximately $6,908.

Immediately prior to the Arrangement, 806.0 stock options of The Arctic Group Inc. were exercised for cash consideration of $600 under The Arctic Group Inc.'s Stock Option Plan and the remaining 1,845.8 stock options outstanding were cancelled.

Fund units are included in unitholders' capital contributions on the consolidated balance sheet as follows:

	Number of Units (1)	Number of Shares (2)	Amount
Balance at December 31, 2000 and 2001	–	36,260.2	$ 46,394
Shares issued on exercise of stock options	–	806.0	600
Shares issued on conversion of convertible debentures (note 9)	–	2,523.7	3,785
Units issued on March 22, 2002 in exchange for The Arctic Group Inc. common shares (1 unit for 6 common shares)	6,598.4	(39,589.9)	–
Units issued on March 22, 2002, at $9.50 per unit, net of share issue costs of $6,908	9,052.6	–	79,092
Units issued on conversion of convertible debentures (note 9)	8.9	–	80
Balance at December 31, 2002	15,659.9	–	$ 129,951

(1) Units of Arctic Glacier Income Fund

(2) Common shares of The Arctic Group Inc.

(amounts in thousands, except per unit amounts)

(c) Options

Unit Option Plan

The Fund established a Unit Option Plan in March 2002, under which Board of Trustees of the Fund may, from time to time and at its discretion, grant unit options to trustees, directors, officers, employees and consultants of the Fund and its subsidiaries as an additional form of compensation. The number of units reserved for issuance of unit options is limited to a maximum of 10% of the issued and outstanding units of the Fund at any time. The unit options vest over a period of three years.

No unit options have been granted under this plan as at December 31, 2002.

Stock Option Plan

Pursuant to the Arrangement, in March 2002 the Fund terminated the previous Stock Option Plan that was administered by The Arctic Group Inc.

Immediately prior to the Arrangement, 806.0 stock options of The Arctic Group Inc. were exercised for cash consideration of $600 under The Arctic Group Inc.'s Stock Option Plan and the remaining 1,845.8 stock options outstanding were cancelled.

A summary of the Stock Option Plan is as follows:

	2002		2001	
	Shares [1]	**Weighed Average Exercise Price**	Shares [1]	Weighted Average Exercise Price
Balance, beginning of year	**2,651.8**	**$ 1.72**	2,438.3	$ 1.85
Granted	**–**	**–**	328.5	0.74
Exercised	**(806.0)**	**0.74**	–	–
Cancelled or expired	**(1,845.8)**	**2.14**	(115.0)	1.76
Balance, end of year	**–**	**$ –**	2,651.8	$ 1.72
Options exercisable, end of year	**–**		2,099.2	

(1) Common shares of The Arctic Group Inc.

(d) Warrants

During 1999, The Arctic Group Inc. issued a total of 1,715.0 warrants to various lenders. Each warrant was exchangeable into one common share of The Arctic Group Inc. at $1.70 to $3.25 per share and expired between October 2000 and August 2001. Of these warrants, 385.0 expired prior to 2001 with the remaining 1,330.0 expiring during 2001.

During 2001, The Arctic Group Inc. issued a total of 6,865.0 warrants to holders of the subordinated convertible debentures as part of the agreement to amend the terms of the debentures. Each warrant was exchangeable into one common share of The Arctic Group Inc. at $0.75 per share and expired upon the maturity of the amended debenture in August 2004. In March 2002, the Company cancelled these warrants. The settlement of these warrants resulted in an increase to the cumulative deficit of $2,775, net of applicable future income taxes of $2,586, representing the excess of fair value of the warrants over the carrying costs.

9. EQUITY PORTION OF CONVERTIBLE DEBENTURES

The convertible debentures, issued November 27, 1997, bore interest at 8.5% per year payable quarterly and matured on December 8, 2002. The debentures were convertible at the option of the holder into common shares at any time prior to maturity at a rate of one share for each $1.50 of aggregate principal amount of debentures converted prior to the Arrangement and one unit for each $9.00 of aggregate principal amount of debentures converted subsequent to the Arrangement. Interest on the equity portion was charged to deficit, net of taxes.

For the year ended December 31, 2002, $3,865 (2001 - $nil) of the 8.5% convertible debentures were converted to units of the Fund or common shares of The Arctic Group Inc. Of this amount, $3,785 were converted into 2,523.7 common shares of The Arctic Group Inc. prior to the Arrangement, and $80 were converted into 8.9 units of the Fund subsequent to the Arrangement.

The balance of $1,233 was paid upon maturity on December 8, 2002.

Notes to Consolidated Financial Statements

Years ended December 31, 2002 and 2001
(amounts in thousands, except per unit amounts)

10. CUMULATIVE DISTRIBUTIONS

Cumulative distributions to December 31, 2002 are as follows:

		2002		2001
Balance, beginning of year	$	–	$	–
Distributions		12,761		–
Balance, end of year	$	12,761	$	–

Distributions are made monthly to unitholders of record on the last business day of each month. Distributions during 2002 were as follows:

			Distributions			
Month	Record Date	Payment Date		Per Unit		Amount
Initial	April 30, 2002	May 15, 2002	$	0.1150	$	1,801
May 2002	May 31, 2002	June 14, 2002		0.0875		1,370
June 2002	June 28, 2002	July 15, 2002		0.0875		1,370
July 2002	July 31, 2002	August 15, 2002		0.0875		1,370
August 2002	August 30, 2002	September 13, 2002		0.0875		1,370
September 2002	September 30, 2002	October 15, 2002		0.0875		1,370
October 2002	October 31, 2002	November 15, 2002		0.0875		1,370
November 2002	November 29, 2002	December 13, 2002		0.0875		1,370
December 2002	December 31, 2002	January 15, 2003		0.0875		1,370
2002 Total			**$**	**0.8150**	**$**	**12,761**

11. INTEREST

		2002		2001
Interest incurred on:				
Long-term debt including additional charges	$	3,850	$	10,138
Convertible debentures		195		1,924
Capital lease obligations		103		127
		4,148		12,189
Less interest on convertible debentures classified as equity		195		431
	$	3,953	$	11,758

12. SETTLEMENT OF DEBT

		2002		2001
Excess of carrying value over fair value of 12.5% subordinated debentures on date of settlement	$	3,294	$	–
Write-off of deferred financing costs of multi-currency non-revolving facility and 12.5% subordinated debentures		(1,631)		–
Costs of terminating interest rate swap contract		(855)		–
Fees and other costs		(54)		–
Loss on settlement of liability component of 8.25% convertible subordinated debentures		–		(4,747)
Net gain (loss) on settlement of long-term debt	$	754	$	(4,747)

(amounts in thousands, except per unit amounts)

13. INCOME TAXES

(a) Components of income tax provision

The provision for income taxes including those items recorded in unitholders' equity is as follows:

		2002		2001
Provision for income taxes:				
Consolidated statement of operations:				
Provision for income taxes	$	**2,146**	$	906
Income tax benefit related to goodwill charges		**–**		(535)
Unitholders' equity:				
Income tax benefit related to interest on equity portion of convertible debentures		**(78)**		(166)
Income tax benefit of settlement of warrants		**(2,586)**		–
Total	$	**(518)**	$	205
Components of total income taxes:				
Canada:				
Current income taxes	$	**888**	$	897
Future income taxes (reduction)		**(1,605)**		(586)
		(717)		311
United States:				
Current income taxes		**214**		57
Future income taxes (reduction)		**(15)**		(163)
		199		(106)
Total	$	**(518)**	$	205

(b) Reconciliation to statutory rate

The overall income tax provision differs from the amount that would be obtained by applying the combined statutory income tax rate to earnings (loss) due to the following:

		2002		2001
Net earnings (loss) before income taxes	$	**11,373**	$	(2,083)
Combined Canadian federal and provincial income tax rate		**39.0%**		40.9%
Income tax expense (reduction) based on statutory income tax rate	$	**4,433**	$	(852)
Increase (decrease) resulting from:				
Net earnings of the Fund subject to tax in the hands of unitholders'		**(3,138)**		–
Recognition of income tax rate reduction on future income taxes		**405**		(426)
Effect of difference in tax rates on U.S. income		**9**		54
Manufacturing and processing credit		**(83)**		108
Foreign withholding taxes		**313**		147
Capital and state taxes		**330**		543
Effect of non-deductible expenses		**(123)**		1,332
Income tax expense	$	**2,146**	$	906
Effective income tax rate		**18.9%**		–

(c) Future income tax liability

Significant components of the net future income tax liabilities are as follows:

		2002		2001
Non-capital loss carry-forwards	$	**10,367**	$	8,507
Restructuring charges		**61**		447
Other temporary differences		**491**		421
Excess of carrying value of capital and other assets over tax values		**(14,942)**		(15,020)
		(4,023)		(5,645)
Valuation allowance		**(491)**		(421)
Future income tax liabilities	$	**(4,514)**	$	(6,066)

Notes to Consolidated Financial Statements

Years ended December 31, 2002 and 2001
(amounts in thousands, except per unit amounts)

14. EARNINGS (LOSS) PER UNIT

The computation for basic and diluted earnings (loss) per unit is as follows:

		2002		2001
Earnings (loss)	$	**9,227**	$	(4,818)
Adjustments for interest on equity component of convertible debentures charged directly to retained earnings, net of applicable future income taxes		**(117)**		(265)
Earnings (loss) available to unitholders		**9,110**		(5,083)
Dilutive effect of convertible debentures		**117**		–
Diluted earnings (loss) available to unitholders	$	**9,227**	$	(5,083)
Basic weighted average number of units		**13,532.3**		6,043.4
Dilutive effect of:				
Convertible debentures		**221.7**		–
Options and warrants		**134.2**		–
Diluted weighted average number of units		**13,888.2**		6,043.4
Earnings (loss) per unit:				
Basic	$	**0.67**	$	(0.84)
Diluted	$	**0.66**	$	(0.84)

15. CHANGES IN WORKING CAPITAL ITEMS

		2002		2001
Accounts receivable	$	**1,530**	$	132
Inventories		**534**		215
Prepaid expenses		**1,298**		(941)
Accounts payable and accrued liabilities		**(3,133)**		2,545
	$	**229**	$	1,951

16. SEGMENTED INFORMATION

The Fund has determined that it operates in one business segment, the manufacturing and distribution of packaged ice and other products. The Fund and its subsidiaries operate in Canada and the United States.

The following presents key information by geographic segment:

	2002			2001		
	Canada	**U.S.**	**Total**	Canada	U.S.	Total
Total sales	**$ 37,810**	**$ 53,909**	**$ 91,719**	$ 36,179	$ 55,209	$ 91,388
Cost of sales, selling, general and administration expenses	**28,240**	**38,475**	**66,715**	28,211	38,124	66,335
	$ 9,570	**$ 15,434**	**$ 25,004**	$ 7,968	$ 17,085	$ 25,053
Earnings (loss) for the year	**$ 9,649**	**$ (422)**	**$ 9,227**	$ (4,442)	$ (376)	$ (4,818)
Total assets	**$ 68,829**	**$ 114,109**	**$ 182,938**	$ 66,474	$ 120,623	$ 187,097

(amounts in thousands, except per unit amounts)

17. RELATED PARTY TRANSACTIONS

Included in accounts receivable is $nil (2001 – $582) receivable from certain unitholders and companies controlled by a Trustee of the Fund. Included in accounts payable and accrued liabilities is $nil (2001 – $756) payable to certain unitholders and companies controlled by a Trustee of the Fund. During the year ended December 31, 2002, interest of $50 (2001 – $nil) was incurred on the payable to certain unitholders and companies controlled by a Trustee of the Fund.

Included in long-term debt at December 31, 2001 is a promissory note of $500 due to persons related to a Trustee of the Fund pursuant to a previous acquisition. This note was repaid in March 2002. During the year ended December 31, 2002, interest of $9 (2001 – $40) was incurred on this note.

18. COMMITMENTS

The Company and its subsidiaries rent premises and equipment under long-term operating leases. The following is a schedule by year of rental payments required under operating leases outstanding at December 31, 2002:

2003	$	**3,280**
2004		**2,167**
2005		**1,560**
2006		**1,206**
2007		**817**
2008 and thereafter		**679**
Total	$	**9,709**

19. CONTINGENCIES

Certain litigation arising in the normal course of business is pending against the Fund and its subsidiaries. While the final outcome with respect to actions outstanding or pending as at December 31, 2002 cannot be predicted with certainty, the Fund is of the opinion that the resolution of such litigation will not have a significant effect on the consolidated financial statements of the Fund and its subsidiaries.

KAMA, Inc., a wholly-owned U.S. subsidiary acquired by the Company in March 1999, was a defendant in a suit filed in Nebraska. The Company was aware of the contingency prior to acquiring KAMA, Inc. and took measures to ensure that the potential loss was fully covered by insurance. KAMA, Inc. had referred the matter to its insurer. During the year ended December 31, 2001, the lawsuit was settled and the resulting payment was fully covered by insurance.

20. FINANCIAL INSTRUMENTS

Credit risk

The Company, in its normal course of business, evaluates the financial condition of its customers on a continuous basis and examines credit history for new customers. The Company establishes a provision for bad debts based on specific customers' credit risk, historical trend and other information on the economic situation. The Company believes that its customers are not exposed to a credit risk level higher than normal.

Fair value of financial instruments

The carrying value of cash, accounts receivable, accounts payable and accrued liabilities and distributions payable to unitholders approximates their fair value, since these items fall due in the short-term. The carrying value of obligations under capital leases and long-term debt approximates their fair value since they bear interest at rates comparable to the prevailing market rates.

21. COMPARATIVE FIGURES

Certain items in the comparative consolidated financial statements have been reclassified from the statements previously presented to conform to the presentation of the 2002 consolidated financial statements.

Per unit amounts for the previous year have been adjusted to reflect the exchange of six common shares of The Arctic Group Inc. for one unit of the Arctic Glacier Income Fund on March 22, 2002.

Historical Financial Information

Year ended December 31, except as noted

(in thousands of dollars, except per unit data)	2002	2001	2000	1999	1998[1]	1998[2]	1997[2]
Operating Results							
Revenue	**91,719**	91,388	82,114	74,257	41,508	9,574	5,345
EBITDA	**25,004**	25,053	21,608	19,015	9,922	423	1,031
Earnings (loss) from operations	**11,260**	3,758	1,236	2,985	4,802	(1,454)	430
Net earnings (loss)	**9,227**	(4,818)	(2,885)	(949)	1,857	(1,016)	218
Basic earnings (loss) per unit	**0.67**	(0.84)	(0.52)	(0.20)	0.45	(0.44)	0.13
Diluted earnings (loss) per unit	**0.66**	(0.84)	(0.52)	(0.20)	0.29	(0.44)	0.13
Cash Flow							
Funds from (used in) operations	**17,249**	11,904	9,575	8,544	6,640	(366)	860
Distributions to unitholders	**12,761**	–	–	–	–	–	–
Distributions to unitholders per unit	**0.82**	–	–	–	–	–	–
Financial Position							
Net cash [3]	**11,919**	1,946	(208)	4,882	4,438	4,118	952
Current assets	**22,223**	15,612	15,286	15,019	10,830	7,042	1,488
Working capital	**15,122**	5,518	(1,340)	5,529	(814)	4,164	556
Total assets	**182,938**	187,097	188,312	170,674	129,443	36,157	4,947
Long-term debt [4]	**54,322**	123,284	120,766	104,547	63,007	15,005	1,908
Net debt [5]	**42,403**	121,338	120,974	99,665	58,569	10,887	957
Unitholders' equity	**117,618**	49,500	52,719	53,825	51,739	18,731	2,236
Units outstanding (000's)[6]							
End of year	**15,660**	6,043	6,043	6,036	5,763	3,167	2,111
Weighted average (basic)	**13,532**	6,043	6,038	5,991	3,718	2,496	1,683

Certain earnings measures, such as EBITDA, are not recognized measures under Canadian generally accepted accounting principles (GAAP). Management believes that in addition to net income (loss), EBITDA is a useful supplemental measure as it provides investors with an indication of cash available for distribution prior to debt service, capital expenditures and income taxes. Investors should be cautioned, however, that EBITDA should not be construed as an alternative to net income (loss) determined in accordance with GAAP as an indicator of the Fund's performance. The Fund's method of calculating EBITDA may differ from other companies and, accordingly, EBITDA may not be comparable to measures used by other companies.

Quarterly Financial Information

(In thousands of dollars, except per unit data)

	2002 Q1	2002 Q2	2002 Q3	2002 Q4	2001 Q1	2001 Q2	2001 Q3	2001 Q4
Operating Results								
Revenue	**8,534**	**27,171**	**44,598**	**11,416**	8,232	27,933	41,987	13,236
EBITDA	**(3,194)**	**9,096**	**19,573**	**(471)**	(2,476)	9,801	17,974	(246)
Earnings (loss) from operations	**(7,773)**	**6,104**	**16,552**	**(3,623)**	(7,807)	4,589	12,393	(5,417)
Net earnings (loss)	**(3,778)**	**4,147**	**11,041**	**(2,183)**	(5,688)	(2,347)	6,858	(3,641)
Basic earnings (loss) per unit	**(0.54)**	**0.26**	**0.70**	**(0.14)**	(0.94)	(0.40)	1.12	(0.61)
Diluted earnings (loss) per unit	**(0.54)**	**0.26**	**0.70**	**(0.14)**	(0.94)	(0.40)	1.04	(0.61)
Cash Flow								
Funds from (used in) operations	**(7,305)**	**7,903**	**15,865**	**786**	(5,284)	6,445	14,596	(3,853)
Distributions to unitholders	**–**	**4,540** (7)	**4,110**	**4,111**	–	–	–	–
Distributions to unitholders per unit	**–**	**0.29** (7)	**0.26**	**0.26**	–	–	–	–
Financial Position								
Net cash (3)	**5,213**	**(626)**	**12,730**	**11,919**	(3,596)	(3,593)	4,529	1,946
Current assets	**16,371**	**19,716**	**32,494**	**22,223**	12,018	20,787	25,776	15,612
Working capital	**5,737**	**8,780**	**19,220**	**15,122**	(6,477)	(391)	12,844	5,518
Total assets	**185,470**	**179,694**	**195,727**	**182,938**	187,901	189,438	197,273	187,097
Long-term debt (4)	**54,577**	**52,298**	**53,078**	**54,322**	124,373	125,373	125,809	123,284
Net debt (5)	**49,364**	**52,924**	**40,348**	**42,403**	127,969	128,966	121,280	121,338
Unitholders' equity	**120,606**	**115,143**	**125,489**	**117,618**	49,990	44,708	52,936	49,500
Unit Data (6)								
Trading price range, per unit								
High	**$ 9.84**	**$ 9.54**	**$ 9.15**	**$ 9.07**	$ 5.28	$ 4.50	$ 5.40	$ 5.88
Low	**$ 5.28**	**$ 8.20**	**$ 8.00**	**$ 8.51**	$ 4.08	$ 3.00	$ 3.30	$ 3.66
Close	**$ 9.52**	**$ 9.02**	**$ 8.80**	**$ 8.70**	$ 3.72	$ 3.60	$ 3.90	$ 5.10
Trading volumes (000's)	**3,277**	**2,785**	**1,337**	**1,270**	291	181	741	257
Cumulative Trading Volume (000's)	**3,277**	**6,062**	**7,399**	**8,669**	291	472	1,213	1,470
Units outstanding (000's)								
End of period	**15,651**	**15,657**	**15,660**	**15,660**	6,043	6,043	6,043	6,043
Weighted average (basic)	**7,040**	**15,654**	**15,658**	**15,660**	6,043	6,043	6,043	6,043

(1) Eight months.

(2) Year ended April 30.

(3) Cash and cash equivalents, net of bank indebtedness.

(4) Includes obligations under capital leases.

(5) Long-term debt and bank indebtedness, net of cash and cash equivalents.

(6) Historical figures adjusted to reflect exchange of six common shares for one fund unit on March 22, 2002.

(7) Includes initial distribution for 40 day period from March 22, 2002 to April 30, 2002.

Corporate Governance

The Board and Management of the Fund recognize that effective corporate governance is required to maintain and enhance unitholder value and to support the effective and careful direction and operation of the Fund and its Subsidiaries. The Fund's corporate governance practices in relation to the guidelines (the "Guidelines") adopted by the TSX in 1995 are reviewed in the following comparative discussion and analysis.

The corporate governance practices and policies of the Fund have been developed under the general stewardship of the Corporate Governance Committee of the Board, which is composed entirely of independent, or "outside" Trustees. As a result of proposed amendments to the Guidelines and other changes in applicable laws, the Corporate Governance Committee is currently undertaking a comprehensive review of the practices and policies of the Fund to ensure that the Fund complies with all applicable requirements. In this regard, it has developed and implemented, and continues to develop, implement and refine, formal policies and procedures that reflect the Fund's commitment to exemplary corporate governance.

For the benefit of unitholders and in response to concerns throughout North America in 2002 regarding corporate governance practices in public investment vehicles, the Board in January, 2003 published on the Fund's web-site at www.arcticglacierinc.com a special report outlining corporate governance issues reviewed by the Board in 2002.

Also, in response to the recent passage of the Sarbanes-Oxley Act of 2002 in the United States, the Fund has reviewed and is in the process of formalizing its processes with respect to disclosure controls and procedures, internal controls, related party transactions, loans to officers and directors and other matters covered by such legislation. As new rules are implemented with respect to corporate governance, disclosure and responsibility, the Fund intends to continue to adopt "best practices" in such areas, as they may develop.

In keeping with currently recommended and progressive corporate governance practices, in 2002 the Board of the Fund appointed James E. Clark as Vice Chair and Lead Outside Trustee. Mr. Clark, a Chartered Accountant by training, was a founding shareholder of Arctic. He has a long standing knowledge of the packaged ice industry and has had considerable board experience. His appointment as Vice Chair and Lead Outside Trustee further supports and strengthens the important alignment of management's and unitholders' interests

TSX Corporate Governance Guidelines

Guideline	Compliance	Comments:
TSX GUIDELINE – 1 The Board should explicitly assume responsibility for the stewardship of the Fund.	YES	• The Board is responsible for supervising and overseeing management of the Fund and its subsidiaries. Management, in turn, is responsible for the day-to-day management of the business and affairs of the Fund and its subsidiaries.
TSX GUIDELINE – 1(a) The Board should adopt a strategic planning process;	YES	• The strategic planning process of the Fund has been developed by the Board with input from Management. This is an ongoing process carried out at Board/Management strategic planning sessions. • The Board reviews and approves strategic transactions that are not considered to be in the ordinary course of business as well as other items of significance, including significant acquisitions, dispositions and financings. • Every other year, the Board holds a Trustees' and senior management retreat at which the existing and proposed strategic plans of the Fund are addressed.

Guideline	Compliance	Comments:
TSX GUIDELINE – 1(b) The Board should identify the principal risks of the Fund's business and ensure the implementation of appropriate systems to manage these risks;	YES	• In conjunction with Management of the Fund, the Board assesses and manages the Fund's exposure to risk. • The Audit Committee, together with the Board, identifies and reviews with Management the principal risks facing the Fund and ensures that management has in place the policies and systems to assess and manage these risks. • Specific risks and risk management are addressed by committees of the Board. For example, the Audit Committee is charged with reviewing financial risks (foreign exchange risk, interest rate risks, etc.) and other insurable risks facing the Fund. The Corporate Governance Committee is responsible for addressing risks in the areas of succession planning and conduct review, among others.
TSX GUIDELINE 1(c) The Board should assume responsibility for succession planning, including appointing, training and monitoring senior management.	YES	• The Corporate Governance Committee reviews with the Chief Executive Officer existing management resources and plans, including recruitment and training programs, to ensure that qualified personnel will be available for succession to executive and senior management positions. These matters are reviewed with the Board on a regular basis.
TSX GUIDELINE – 1(d) The Board should establish a communications policy for the Fund;	YES	• The Fund has a disclosure policy to fairly disseminate material information in a timely manner to all unitholders in accordance with applicable securities laws. • The Board, upon recommendation of the Audit Committee, approves annual and quarterly reports to unitholders as well as other material public communications. • All quarterly and annual financial statements, material press releases and investor presentations are posted immediately on the Fund's website (www.arcticglacierinc.com). • With respect to the release of its quarterly and annual financial results, the Fund provides live internet and telephone conference call access to all interested parties, including unitholders, financial analysts and media.
TSX GUIDELINE – 1(e) The Board should assume responsibility for integrity of the Fund's internal control and management information systems.	YES	• The responsibility for reviewing internal control and management information systems is delegated to the Audit Committee. Internal control and information systems are reviewed at least annually by the Audit Committee with Management.
TSX GUIDELINE – 2 The Board shall be constituted with a majority of individuals who qualify as unrelated directors (trustees).	YES	• The Board is constituted of a majority of individuals who are unrelated.
TSX GUIDELINE – 3 The Board is required to disclose its analysis of the application of the principles supporting the conclusion in item 2.	YES	• An "unrelated director" is a director who is independent from management and is free from any interests or any business or other relationships which could, or could reasonably be perceived to, materially interfere with the director's ability to act with a view to the best interests of the Fund, other than interests and relationships arising from unitholdings. A related director is one who is not an unrelated director. • Based upon the definition of "unrelated director" in the TSX Guidelines and a review of the applicable factual circumstances (including financial, contractual and other relationships), 4 of the 6 trustees are unrelated.

Corporate Governance

Guideline	Compliance	Comments:
TSX GUIDELINE – 4 The Board should appoint a committee of directors (trustees) composed exclusively of outside directors (trustees),a majority of whom are unrelated directors (trustees),with the responsibility for proposing to the full Board new nominees to the Board and for assessing directors (trustees) on an ongoing basis.	YES	• The Corporate Governance Committee is composed of three outside, unrelated trustees. • In conjunction with the Executive Chair, the Corporate Governance Committee reviews potential candidates for the Board and makes recommendations to the full Board.
TSX GUIDELINE – 5 The Board should implement a process for assessing the effectiveness of the Board as a whole, the Committees of the Board and the contribution of individual directors/trustees.	YES	• The Corporate Governance Committee reviews the effectiveness of the Board, its committees and individual trustees.
TSX GUIDELINE – 6 Existence of an orientation and education program for new directors/trustees.	YES	• The Board and Management have established an informal orientation and education program for new trustees and new Committee Members. In addition, all Committees of the Board report to the Board on an ongoing basis with respect to developments within their respective areas. Ongoing education is provided if deemed necessary. • The Fund undertakes ongoing continuing education efforts which includes tours of various corporate sites and facilities, meetings with management of the Fund, and a trustees' retreat held every other year.
TSX GUIDELINE – 7 The Board should examine the size of the Board and the impact of the number upon effectiveness.	YES	• The Board considers the composition and size of the Board (up to a maximum of 9 trustees) to be appropriate given the Fund's current businesses. • The trustees of the Fund reflect diverse expertise and geographical perspectives, and come from political, financial and industry backgrounds.
TSX GUIDELINE – 8 Adequacy and form of the compensation of directors/trustees should realistically reflect the responsibilities and risks involved in being an effective director/trustee.	YES	• Trustees are remunerated for their services through an annual retainer as well as fees per meeting. • The Compensation Committee is charged with the responsibility of reviewing the adequacy and form of the compensation of directors/trustees. In conjunction with external consultants, the Compensation Committee has undertaken a review of fees paid by the Fund to Trustees to ensure that it is competitive with the market and that it reflects the value that the Trustees bring to the Fund.
TSX GUIDELINE – 9 Committees of the Board should generally be composed of: (a) outside directors/trustees; and (b) a majority of whom are unrelated directors/trustees.	YES	• Each Board Committee is comprised solely of outside directors/trustees. • Each Board Committee is comprised of only unrelated directors/trustees.
TSX GUIDELINE – 10 The Board should assume responsibility for (or a Committee of the Board should be assigned general responsibility for) developing the Company's/Fund's approach to governance issues.	YES	• The Corporate Governance Committee is responsible for the Fund's approach to corporate governance issues.

Guideline	Compliance	Comments:
TSX GUIDELINE – 11 The Board, together with the Chief Executive Officer ("CEO"), should develop position descriptions for the Board and the CEO, involving the definition of the limits to Management's responsibilities. In addition, the Board should approve or develop the corporate objectives which the CEO is responsible for meeting and assess the CEO against these objectives.	YES	• The Board develops with Management the corporate objectives which the Chief Executive Officer and Management are responsible for meeting and reviews such objectives on an ongoing basis. In addition, the Trustees participate with Management in regular strategic planning meetings which review and consider performance targets and objectives.
TSX GUIDELINE – 12 The Board should have structures and procedures for ensuring that the Board can function independently of Management.	YES	• The Board meets independently of management on an ongoing basis. • During each meeting, the Board and its committees conducted "in camera" sessions, at which no management directors/trustees or members of management are present.
TSX GUIDELINE – 13(a) The Audit Committee of the Board should be composed only of outside directors.	YES	• The Audit Committee is comprised of only outside Trustees.
TSX GUIDELINE – 13(b) The roles and responsibilities of the Audit Committee should be specifically defined so as to provide appropriate guidance to Audit Committee members as to their duties.	YES	• The Audit Committee has adopted roles and responsibilities including the review of annual and quarterly financial statements, accounting practices and policies, ongoing reviews with the Fund's auditors, including the scope of the audit and the role, independence and fees of the external auditors.
TSX GUIDELINE – 13(c) The Audit Committee should have direct communication channels with the internal and external auditors to discuss and review specific issues as appropriate.	YES	• The Audit Committee and the Board review on an ongoing basis the principal risks of the Fund's business and Management's recommendations for managing such risks. Systems put in place to manage risks are monitored by the Board or the Audit Committee. • Generally, the Audit Committee is responsible for the Fund's financial reporting processes and the quality of its financial reporting. In fulfilling this responsibility, the Audit Committee oversees the terms of engagement and relationship between the Fund and its external auditors. In doing so, the Audit Committee is free to communicate directly with the external auditors of the Fund without the presence of Management.
TSX GUIDELINE – 13(d) The Audit Committee duties should include oversight responsibility for Management reporting on internal control and should ensure that Management has designed and implemented an effective system of internal control.	YES	• The Audit Committee oversees the integrity of the Fund's internal controls and risk management, and reporting procedures with respect thereto. In this regard, the Audit Committee specifically reviews and addresses fraud prevention and other internal control procedures as well as the management and mitigation of contingent liabilities, including litigation and regulatory compliance matters. • It is the Fund's intention to ensure that at all times at least one member of the Audit Committee qualifies as a "financial expert" as contemplated by the relevant regulatory authorities.
TSX GUIDELINE – 14 The Board should implement a system which enables an individual Director/Trustee to engage an outside advisor at the expenses of the Company/Fund in appropriate circumstances. The engagement of the outside Advisor should be subject to the approval of an appropriate committee of the Board.	YES	• The Board and its committees may retain outside advisors as they deem necessary. Individual Trustees may also retain outside advisors, at the expense of the Fund, upon approval of the Corporate Governance Committee.

Corporate Information

Officers

Robert J. Nagy
Chairman & Chief Executive Officer

Keith W. McMahon, CA
Chief Financial Officer

Hugh A. Adams
Corporate Secretary

Senior Management

Robert J. Nagy
Chairman & Chief Executive Officer

Keith W. McMahon, CA
Chief Financial Officer

Keith E. Corbin
Vice President, Sales & Marketing

Frank G. Larson
Vice President, U.S. Operations

Richard A. Thibault
Vice President, Production

Neil R. Winther
Vice President, Administration

Michael T. Kruse, CA
Corporate Controller

Gary D. Cooley
Director, Corporate Development

Marc G. Fontaine
Director, Information Systems

Garth D. Waddell, CA
Director of Finance

Investor Relations

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Calgary, Alberta

United States
Jones Day
Dallas, Texas

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KPMG LLP
Winnipeg, Manitoba

Bankers

Toronto Dominion Bank
RoyNat Inc.

Transfer Agent

Computershare Trust Company of Canada
Winnipeg, Manitoba

Stock Exchange Listing

Toronto Stock Exchange - Arctic Glacier Income Fund AG.UN

Annual General Meeting

Tuesday, May 27, 2003
4:15 p.m. E.S.T.

Auditorium, TSX Conference Centre
The Exchange Tower
130 King Street West
Toronto, Ontario

Corporate Office

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www.arcticglacierinc.com

Income Fund Trustees

Robert J. Nagy – Chairman and Chief Executive Officer

Mr. Nagy has been Chief Executive Officer since 1996. He has been Chair of the Trustees of the Fund since its inception in 2002, and was Chairman of the Board of The Arctic Group Inc. from 1996 to 2002.

Mr. Nagy was a founder of The Arctic Group Inc. in 1996 and a principal of a number of predecessor companies since 1986. He brings extensive strategic and operational experience to his role as architect and leader of Arctic's aggressive acquisition and product branding strategies. Mr. Nagy has had extensive experience in every aspect of the ice manufacturing business over the past thirty years and is highly respected within the industry and the business community.

James E. Clark (1)(2) – Vice Chairman and Lead Outside Trustee

Mr. Clark is President and a director of Jecco Properties Ltd., a Vancouver based real estate investment and development company and is also President and director of Moray Channel Enterprises Ltd., a marina development and management company. He has been Vice Chair and Lead Outside Trustee of the Fund since its inception in 2002. Mr. Clark was a founder of The Arctic Group Inc. in 1996, a director from 1996 to 2002 and Vice President, Finance and Acquisitions from 1996 to 1998. He has been a director or principal of a number of predecessor companies since 1989 and a participant in the packaged ice industry for more than twenty years.

Keith F. Burrows (2)(3)

Mr. Burrows is President and Chief Executive Officer of Acetek Composites Inc. of Winnipeg. He has also been Chairman of eZedia Inc., a digital media software company, since 2000. Mr. Burrows was President of Bristol Aerospace Limited from 1992 to 1997. He has also served as a director of Rolls-Royce Industries Canada Inc., and as a member of the International Trade Advisory Committee. He has been a Trustee of the Fund since its inception in 2002 and previously was a director of The Arctic Group Inc. from 1996 to 2002.

Hon. Gary A. Filmon, P.C., O.M. (1)(3)

Mr. Filmon is Vice-Chairman of Wellington West Capital Inc. of Winnipeg. He is a director of FWS Construction, serves on the National Advisory Board of Marsh Canada, and is a member of Canada's Security and Intelligence Review Committee. Mr. Filmon was Premier of the Province of Manitoba from 1988 to 1999. He has been a Trustee of the Fund since its inception in 2002 and previously was a director of The Arctic Group Inc. from 2000 to 2002.

Peter S. Hyndman (1)(3)

Mr. Hyndman is Counsel at Fasken Martineau DuMoulin LLP, Barristers and Solicitors in Vancouver. He has served as a Director, and as Corporate Secretary, for a number of major Canadian public and private companies, several with extensive cross-border activities and has a particular interest in emerging corporate governance issues. Mr. Hyndman was an elected member of the British Columbia Legislature from 1979 to 1983 and served as a Minister of Consumer and Corporate Affairs during two years of that term. Mr. Hyndman has been a Trustee of the Fund since its inception in 2002 and previously was a director of The Arctic Group Inc. from 1996 to 2002.

David R. Swaine (2)

Mr. Swaine is Executive Vice President and Chief Operating Officer and a director of RoyNat Inc. of Toronto. He has been a Trustee of the Fund since its inception in 2002 and previously was a director of The Arctic Group Inc. from 1999 to 2002.

(1) Member of the Audit Committee (2) Member of the Compensation Committee (3) Member of the Corporate Governance Committee

Create Your Own Opportunity with

ARCTIC GLACIER INCOME FUND

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